Results-Oriented Government

A Guide to Strategic Planning and Performance Measurement in the Public Sector

Alberta

GOVERNMENT OF ALBERTA

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Preface

The Alberta Government, in establishing a strategic planning process in 1994, developed core government measures which are the basis of tracking the government's performance in its three core business areas of:

- *People – helping Albertans to be self-reliant, capable and caring,*
- *Prosperity – promoting prosperity for Albertans,*
- *Preservation – preserving the Alberta tradition.*

Each measure reflects the government's priorities and provides information upon which the public can judge the government's performance.

As the focus in the Alberta Government has shifted in recent years, the need for a strategic planning program became evident. In October 1996 the Alberta Treasury, Office of Budget and Management, stated that, "In 1993, the stark reality of a $3.8 billion deficit (the eighth consecutive deficit) and $11.8 billion net debt called for change." A panel of nine key Alberta executives and financial experts, the Alberta Financial Review Commission, reviewed the government's financial position and identified actions that needed to be taken to improve the province's management and reporting systems so that they more clearly communicated the province's financial situation to its citizens. The Commission's Report, echoing recommendations similar to those of the province's Auditor General, became the impetus and focal point for change."

The Alberta Government's Vision Statement, " an open and accountable government", requires that improved accountability as a necessary step in government planning processes. In Alberta, many complicated accountability relationships exist among the Government, the Legislative Assembly, and the various operating entities owned or controlled by the Government, including departments, boards and agencies. The challenge facing the Government is to incorporate an effective accountability framework into this complex structure.

The major components of such a accountability framework are outlined in the Government Accountability Act. It requires that the Government and each ministry create 3 year business plans including goals for each core business and the measurements to be used to assess their performance. It further requires annual reporting comparing actual and desired results.

The training materials presented in the pages that follow are designed to serve as a guide towards more open, accountable and results-oriented government.

Acknowledgements

These materials were originally developed by the Southern Growth Policies Board in the US. They have been adapted with their permission.

Introduction

Twenty years ago, as inexpensive, superior-quality consumer goods became readily available from abroad, North American industry faced a crisis in customer confidence.

Today, governments face a similar crisis as their customers—taxpaying citizens—express growing concern with the quality and cost of public services.

Can anything be done to improve government's performance?

In fact, many jurisdictions are finding value in the same tools that are helping industry meet the challenge of foreign competition, including strategic planning, benchmarking, performance measurement and results-oriented management.

These tools can help elected officials and managers make better-informed policy decisions, determine the best uses of limited resources, enhance service quality and improve communication with citizens.

Across the board, the emphasis is upon accountability for results—measuring whether or not public programs are successfully addressing the real needs of the individuals, families and companies they seek to serve.

As David Osborne and Ted Gaebler note in their popular book, *Reinventing Government*:

- What gets measured gets done.
- If you don't measure results, you can't tell success from failure.
- If you can't see success, you can't reward it.
- If you can't reward success, you're probably rewarding failure.
- If you can't recognize failure, you can't learn from it.
- If you can demonstrate results, you can win public support.

Since 1994, the government has focused on three questions: Are we doing the right thing? Are we doing it well? And, how do we know? Many changes have occurred over the last 4 years reflecting the government's focus on openess and accountability, and the priority given to fiscal management by the government. Alberta's Treasurer of the day, Jim Dinning summarized the rationale for these changes when he said; "We want proof that our strategies are working and producing the results we want...spending money is no guarantee of results. Albertans expect that government resources will be directed to programs that work, that achieve the results we set out to achieve. And they deserve to have information so they can judge our actions and hold us accountable for the results."

Accountability is reporting to the people and the organizations or services involved. The basic ingredients of successful accountability as described by the Auditor General, and legislated in the Government Accountability Act are: setting of measurable goals and responsibilities, planning what needs to be done, doing the work, monitoring the progress, reporting on the results, then evaluating results and providing feedback. The existing accountability framework has undergone significant change as the Government focuses on results.

Effective accountability means that those managing public resources depend on sound information, not speculation, in determining the effectiveness of government programs.

Managers and elected officials realize the benefits in communication between services and the public. They are increasingly accepting of accountability, strategic planning and development of performance measures. And yet, it is still possible that managing for results could become just another exercise, part of the latest trend, an example of what one US Southern governor has called a "pet rock of governance."

As expected, some resistance to change can occur, especially when it comes to adopting complex new ideas that must be painstakingly implemented over time, across departments. Without clear ties to planning, budgets too often reflect the fleeting priorities of the moment, rather than leading toward a vision of the future. Without performance measurement, program shortfalls may not be revealed nor strategies adjusted in subsequent

planning. And unless plans are carefully linked to budgets, they are merely pipedreams.

Among the major stumbling blocks to implementing effective planning and performance measurement has been a lack of widespread familiarity with techniques that have proven effective in public and private sector applications. Quite simply, many government officials have not known how to proceed. Where might they turn for guidance, customized training, technical support and encouragement?

Alberta Treasury has adapted these materials for use by the Alberta Government Ministries and Departments. The original materials, covering training in goal-setting and performance measurement, were jointly developed by the **Southern Growth Policies Board** (SGPB), a public, interstate organization focused on economic development, and the **Southern Consortium of University Public Service Organizations** (SCUPSO), a university-based network of Institutes of Government and other centers for leadership and public administration.

Their comprehensive program has been adapted through the integration of Alberta Government policy and legislation and some other Canadian examples to illustrate the concepts included in the program.

As outlined in the following pages, the training program is designed to provide a comprehensive, yet flexible curriculum. Its seven modules cover the basics of managing for results: 1) strategic planning; 2) benchmarking best practices; 3) performance measurement; 4) using performance results for project management; 5) performance-based budgeting; 6) performance-based contracting; and 7) creating an environment that supports these activities.

It's no small matter to transform a public agency—or an entire government—to offer greater accountability for results. It takes vision, commitment, a willingness to experiment, and time. And, as a matter of fact, there's no better time to begin...than right now.

1

Strategic Planning

As the old saying goes, "If you don't know where you're going, any road will get you there."

The only trouble is, without clearly defined goals to provide a sense of direction, you may not much care for where you end up.

Strategic planning is a powerful tool for setting priorities and making informed decisions about the future. But simply having a strategic plan is not enough. To meet its goals, your organization also needs a mechanism to assess progress and help correct course from time to time. That tool is performance measurement.

The Alberta Government's Business Plan and those of each ministry are the primary components of strategic planning. The Government Accountability Act (1995) outlines the business/strategic planning process. Beginning with the June 1995 report, an annual performance report, "*Measuring Up*", has been published by the Government of Alberta.

A successful, results-driven strategic plan includes four essential steps:

1) Developing a common vision about where you want to go;
2) Assessing where your organization is right now;
3) Determining how you will get to your desired destination; and
4) Measuring your progress.

Performance measures that document the actual results, or outcomes, of government programs provide the means for keeping everything on track.

Key Steps

Strategic planning is often depicted as a linear process, with one step flowing logically to the next. In actual practice, however, successful strategic planning demands continuous learning from both successes and failures. Key steps include:

1. **Prepare to plan.** A public organization must assess its readiness to engage in strategic planning and design a process that matches its purpose, resources, and political environment.
2. **Gain and sustain commitment.** Identifying and involving key stakeholders, whether legislators, government employees, or citizens, is essential to strategic planning. Finding common ground and sustaining their commitment are equally important.
3. **Analyze customer needs and desires.** Just as successful businesses pay close attention to the needs of their customers, governments are also adopting a customer orientation. This means seeking the advice of customers and other stakeholders early on in the planning process.
4. **Assess organizational strengths, weaknesses, opportunities, and threats.** In order to develop realistic plans, an organization needs to take a hard look at its internal strengths and weaknesses, as well as scan the external environment for potential opportunities and threats that it may face in the future.
5. **Set a strategic direction.** Strategic planning allows an organization to step back from its everyday tasks and ponder the "bigger picture"—to set its overall strategic direction by articulating its vision, mission, and values.
6. **Identify strategic issues.** An organization must identify the broad concerns that are critical to its future and decide which to tackle first.
7. **Develop goals, objectives, and performance measures.** An organization must ask itself, "Where do we really want to be?" This involves identifying general end-results toward which effort is directed (goals); specific, measurable targets along the way (objectives); and

performance measures that assess progress toward these goals and objectives.

8. **Devise strategies.** Once an organization knows where it is headed, the next step is to determine how to get there. Strategies are activities that an organization will use to accomplish its goals and objectives.
9. **Implement the plan.** This step involves assigning responsibilities, allocating resources, linking the plan to operational plans and budgets, and establishing a timetable—as well as communicating and marketing the plan.
10. **Evaluate results.** Monitoring the extent to which an organization is achieving its vision and fulfilling its mission should be done on a regular basis.

Implementation Tips

- Obtain the support and active participation of key stakeholders.
- Keep the overall process as simple as possible, while tailoring it to the particular organization and political environment.
- Provide the participants with training about the planning process, terminology, group decision making skills, and teamwork.
- Build accountability into the plan from the beginning.

2

Benchmarking Best Practices

Innovation ought not to depend upon reinventing the wheel.

If somebody, somewhere has already discovered a better way, then why not apply the lessons learned from their experiences?

The practice of benchmarking is based on this principle. In simple terms, it has been described as "learning from the pros."

Benchmarking is a performance measure that provides the driving force to establish goals of high performance and the means to accomplish these goals. The greatest impetus for benchmarking occurred in the 1980's with the advent of worldwide competetion between companies in key industries. Foremost among these were companies such as Xerox, Motorola, At&T, Du Pont and Ford who found benchmarking invaluable in helping improve their competetiveness and effectiveness.

As worldwide competition spread with increased globilization, it has driven companies to adopt benchmarking and other quality improvement tools. Furthermore, it has also become the prerequisite for quality certification in countries such as Japan (the Deming Award), European countries (the ISO 9000 Standard) and Canada (the Award for Business Excellence).

Xerox Corporation improved its own mail-order and shipping department by comparing its practices with L.L. Bean, a clothing retailer and mail order house. The New York City Transit Authority upgraded its services by studying Federal Express and Delta Airlines.

Benchmarking may have its roots in the private sector, but it clearly offers tangible benefits for public management. Through benchmarking, Milwaukee, Wisconsin's fire department reduced by one-third the rate of fire-related deaths within a particularly troubled district.

In fact, governments have long compared various aspects of their operations with other jurisdictions. But benchmarking is not about report cards or rankings. It is about finding and adapting outstanding practices that can produce better results in your own organization. It focuses more on the future than on the past, identifying practical methods for solving problems, improving performance, and reaching goals.

Integrated into strategic planning, benchmarking can provide external reference points that illuminate and validate proposed strategies, plans, and goals. Without it, one administrator notes, management is simply flying in the dark.

Key Steps

One of the basic challenges to implementing benchmarking in the public sector is that not everyone is speaking the same language. Some of the early leaders in strategic planning and performance measurement, such as Oregon, use the term "benchmarks" to refer to statewide goals and outcome measures linked to a strategic plan or vision. In this guide, however, the term is used in the same sense as in the private sector, where "benchmarking" involves identifying and emulating best practices for specific operations. The following steps are essential:

1. **Decide what to benchmark.** A benchmarking project should be narrowly focused and limited in scope, targeting specific customer needs as opposed to general data-gathering. Arlington, Texas used benchmarking to resolve a problem with slow play at its municipal golf course, rather than trying to overhaul its entire parks and recreation program at one fell swoop.

2. **Study internal processes.** Before focusing on outside organizations, it is wise to invest the time to become thoroughly familiar with your own operations and to develop a clear sense of your external information needs.
3. **Identify benchmarking partners.** These might include other public agencies or perhaps private sector firms with outstanding reputations in the particular activity being benchmarked. As the word "partner" suggests, an emphasis should be placed on information sharing and mutual benefit.
4. **Gather information.** Information about best practices is typically gathered through a combination of phone interviews, questionnaires, document review, and site visits.
5. **Analyze information.** A key to successful benchmarking is the identification of factors that account for the superior performance of the organizations being studied. The thrust then shifts to finding ways to make appropriate improvements in your own organization, recognizing that differences in organizational culture and operations require creative adaptation rather than simple substitution of one procedure for another.
6. **Implement for results.** Failure to implement improvements is a common pitfall in the benchmarking process. Success will be enhanced by thorough planning, early involvement of those with a stake in the process being benchmarked, and strong support from top management.
7. **Monitor results and take appropriate action.** Benchmarking is an ongoing process, not a one-time event. As changes are implemented, the results should be carefully monitored against established performance measures and used to fine-tune the process. Furthermore, the search for best practices is a continuous pursuit. Dynamic changes in the social and economic environment mean that government, like business, cannot be content to rest on its laurels.

Implementation Tips

- Understand the entire benchmarking process and resist taking shortcuts.
- Involve the right people early on.
- Commit adequate resources to the project.

3

Performance Measurement

Albertans have become increasingly concerned about the value they are receiving for their tax dollars. They expect the services provided by government to be of top quality and to enhance their quality of life. In the past, government performance has generally been defined in terms of what it has done, example; number of kilometers of road paved, rather than what it has achieved in terms of improving Albertans' quality of life. Tracking the amount of money spent on a service does not indicate progress in solving problems.

Measures serve a variety of purposes: as a vehicle to be accountable, communicate results to the public, to signal the things the government considers important, and as a motivational tool.

Adopted from a traditional business planning model, performance measurement studies the early results of an initiative or service, compares the results against the target and determines whether to stay on course, make changes or abandon the particular strategy. The goal of performance management shifts focus to the results achieved with the resources from a focus only on the resources allocated.

Alberta's performance measurement system is structured in a tiered format, with different categories of measures used to report on performance: core government measures which report on high level outcomes that are priorities of Albertans; key measures within each Ministry; and internal management measures which provide program-specific information. Alberta is in the early stages of performance management development. Considerable effort is still required in the development of performance measures as we move from "doing the right thing" to "doing the right thing well" and reporting progress along the way.

Other jurisdictions with more experience and significant outcomes, are cited throughout the program and can be used as models for further developments here; for example, the US states of Oregon, Texas, Louisiana, and Florida.

In 1995, *Financial World* magazine declared Phoenix, Arizona to be the best managed city in the United States. The secret to its success? According to City Manager Frank Fairbanks, performance measures and measurement systems play a vital role. "I don't think you can effectively manage an organization without them," he says.

An increasing number of public officials appear to agree. In a recent *Financial World* survey, the majority of US states and large cities report that they are using performance measures more extensively than they did five years ago.

The power and appeal of performance measurement is that it tells you how you are doing. This "bottom-line" information helps both policymakers and public managers to stay focused on and assess progress towards meeting long-range goals. It identifies problem areas and provides motivation for continuous program improvement. And it can help build public support by documenting the results that taxpayer dollars are purchasing.

A key challenge is determining precisely what to measure. Priority should be placed on measuring the actual results—the *outcomes*—of government programs. Involving service providers, customers, and employees in this planning process will enhance the likelihood of devising meaningful measures. For the past five years, the US city of Portland, Oregon has published an annual report on its performance, providing information about expenditures, workload, and results of the city's six largest programs. It not only summarizes important performance trends, but also points to problem areas that need attention. The

city uses this information to communicate with its citizens, for policymaking and oversight, and to make program improvements.

Performance measures, however, are not in themselves a magic bullet. They will not help to improve program results unless integrated with other organizational change strategies.

Key Steps

Key steps in the development and administration of a performance measurement and monitoring system include:

1. **Secure leadership commitment.** Management commitment not only sends a signal that performance measurement is a high priority, but helps ensure that necessary staff and financial resources will be devoted to the effort.
2. **Determine the scope of the effort.** Performance measurement activities can be undertaken across an entire jurisdiction but can also provide benefit to a single program or agency.
3. **Assign responsibilities for coordination.** A coordinator can be critical in keeping efforts moving along. Coordination both within and among programs/agencies is an important consideration in developing a performance measurement system.
4. **Review/identify mission, goals, and objectives.** The measurement of performance is often most relevant in the context of a strategic plan. Organizations that have already undertaken a strategic planning process will be ready to build upon those efforts—developing performance measures to assess progress toward identified goals and objectives. Those that have not yet engaged in planning efforts will find it helpful to do so prior to moving into performance measurement.
5. **Design measures.** Performance measures should reflect an organization's mission, goals, and objectives. The challenge for public agencies is to develop meaningful measures that are focused on performance efficiency, quality, and especially on program results—that is, the actual impact of a program or service on the people it is designed to serve.
6. **Establish measurable performance targets.** Without a basis of comparison, it is difficult to distinguish "good" from "bad" performance. As a starting point, most governments identify their current performance on a particular measure, using this as a baseline with which to compare future performance. Benchmarking can also be useful in setting targets that are based on the exemplary performance of other organizations.
7. **Measure performance.** While existing data collection systems can be economical sources of performance data, governments should examine a wide array of collection techniques, including focus groups, surveys, and trained observer ratings.
8. **Audit performance data.** Provisions should be made to verify the accuracy of performance data.
9. **Analyze performance information.** Periodic analysis of performance information is needed to determine whether or not program activities are on track.
10. **Report performance.** Determining the audience and frequency of performance reporting deserves careful consideration. Various audiences have differing information needs; reporting formats can be tailored accordingly.
11. **Use performance information.** It is important to ensure an ongoing, meaningful connection between the performance measurement system and important decision making processes.
12. **Refine performance measures.** It is doubtful than an agency can ever develop a perfect set of measures, so it must be open to making adjustments from time to time. Of course, such changes must be balanced against the need for consistency in examining trends.

Implementation Tips

- Build on your strategic plan.
- Focus on results.
- Choose a limited number of meaningful measures.
- Minimize data collection costs—both in terms of money and time.
- Involve those who will be expected to use performance data—as well as those who will collect it—in the development of appropriate measures and the design of the performance measurement system.
- Train staff in the development and use of measures.

4

Using Performance Results

Creating good performance measures ought not to be an end in itself.

Their true value lies in their use to improve decision making, service performance, and public accountability. That use, however, is far from automatic. It must be planned for and encouraged.

The major beneficiaries ought to be public managers, who can use performance data to identify problem areas that need improvement, highlight best practices that might be replicated, and assess the progress made once new strategies have been implemented.

The state of Oregon's Department of Transportation relies on performance measurement as a management tool. It has been used to reevaluate project selection and to merge one district's maintenance function with a county. Linkages to the personnel appraisal system require managers to use performance information to demonstrate their ability to manage effectively and produce results. The director calls upon managers on a periodic basis to assess how they are using performance measures to make decisions—and then shares this information with employees at forums throughout the state.

In Alberta, performance measures provide valuable information to assist managers, politicians and the public. The information they convey is important in determining whether programs are under performing due to inadequate resources or perhaps if allocation to other programs may produce the desired results.

Experience has shown that it is a good idea to gain experience in using performance measurement as a management tool *before* using it for budgeting or resource allocation. This approach can help to overcome any managerial reluctance to use performance data by positioning it as a tool for improvement, not punishment.

Elected officials have much to gain from timely performance data. Some mayors and city managers meet weekly or monthly with department heads to monitor actual performance against objectives. A government that reports its own performance to citizens, rather than relinquishing that task to the media, has far more control over the manner in which information is disclosed and greater opportunity to describe its response to particular problems.

Although reporting and using performance results may appear relatively straightforward, it is in practice a complex and difficult process. Performance measures do not describe what *caused* a particular outcome. What they do is provide a "score." As in a hockey or football game, however, the score by itself does not reveal why the game turned out a particular way, nor does it tell a manager how to go about improving the team's play. Explanatory information can provide a context for interpreting performance results, especially when outcomes fall short of goals.

In short, effective communication is the critical link between performance and accountability. The regular, thoughtful presentation of performance data can assure all concerned that such information will not be used inappropriately or prematurely in either performance appraisals or budget decisions.

Key Steps

Key steps in planning and encouraging the use of performance measurement information in the management process include:

1. **Design the system to encourage use.** The quality and appropriateness of the performance measures themselves have a great deal of effect on the overall credibility of the performance measurement system.

2. **Demonstrate leadership commitment.** Performance measurement efforts may initially be viewed with skepticism. Demonstrated leadership commitment—including the ongoing use of performance information—can send the message that performance measurement isn't just a "waste of time."
3. **Provide training.** Regular performance reports will not automatically improve performance. Policy makers, managers, and staff all need training in using measures in order to improve decision making and performance.
4. **Establish incentives for using performance information.** Granting public managers operational flexibility in exchange for accountability can provide motivation for embracing the process.
5. **Integrate performance information into management information systems.** An integrated database approach to maintaining, analyzing, and reporting performance information will alleviate redundancies and expedite success.
6. **Tailor reports to meet decision makers' needs.** Various audiences will have differing performance information needs, as well as differing styles for receiving and processing such data. Report formats can be adjusted to fit those individual preferences. In each case, information should be reported on a timely basis to coincide with important decision making processes.
7. **Integrate performance information into the personnel management system.** Such information can be used to strengthen the link between individual performance and agency goals and objectives. Experience suggests that pay should be linked to performance only after the performance measurement system has become well-established in an organization.
8. **Review and refine measures to ensure their ongoing utility.** Agencies should periodically evaluate the validity and reliability of performance data. Over time, agencies can fine-tune measures to upgrade their utility or to respond to changes in the environment. While reviews ought to take place on an annual basis—and should include discussions with program management and staff, agency executive and financial management, customers, and other stakeholders—organizations should resist the temptation to tinker incessantly with their measures.
9. **Review the agency's ongoing use of performance information.** Periodic review of the ways in which performance information is actually being used within an organization may uncover bottlenecks that need to be addressed.

Implementation Tips

- Provide performance data to stakeholders on a regular, timely basis.
- Provide policy makers, management, and staff with the training, information, and incentives needed to act on available information and incorporate it into their day-to-day operations.
- Use performance information for internal management decision making prior to using it for budgeting and resource allocation.
- Be selective in presenting performance results. Don't swamp elected officials and managers with more data than they have time to understand.

5

Performance-Based Budgeting

In the current era of fiscal restraints and escalating demands for more efficient public services, a performance-based budget offers a lot more than a way to control expenses.

A principal advantage is that a mission-driven, performance-based budget promotes both managerial improvement and better program results. It encourages elected officials to focus on setting policy direction and establishing performance expectations while giving public managers the flexibility to adjust spending in response to changing conditions.

The Alberta approach to performance-based budgeting is one of evidence-based decision making rather than a reward and punishment system based on a level of performance. By focusing on results, the discussion can address whether the current allocation of resources is the most efficient way to achieve goals.

The need for greater accountability and budget reform in the US recently led Texas, which operates under a highly decentralized state government, to implement both statewide and agency strategic planning efforts that are closely tied to a performance-based budgeting system.

Rather than focusing on detailed line item budgets, Texas' budget now allocates bundles of dollars to accomplish desired results (as specified in the strategic plan). The result is an increased emphasis on "services provided" rather than "dollars spent."

Performance-based budgeting builds upon earlier fiscal practices. Its use of strategic planning and program structure draws upon the Planning-Programming-Budgeting System (PPBS) that became popular in the 1960s. It derives the setting of objectives and performance targets from the Management by Objectives (MBO) approach of the 1970's. And its designation of expected levels of performance for each level of expenditure was first introduced with Zero-Based Budgeting, also in the 1970's.

In a departure from those previous approaches, however, performance-based budgeting emphasizes more broadly based involvement in planning efforts, the use of performance measures to make allocation decisions, and greater management flexibility in making spending decisions. At the same time, it de-emphasizes the generation of volumes of data solely for reporting purposes.

Still, adopting this newest approach is more evolutionary than revolutionary. The city of Charlotte, North Carolina began measuring the effectiveness of its public services in the 1970's, when it established a management-by-objectives initiative that was tied to the budget process. Those initial efforts, however, lacked a strategic mission or focus. Today the city has implemented and is refining a performance results system that progressively links strategic goals to department planning to budget objectives to performance goals for individual employees.

Key Steps

For provincial and munincipal governments, performance-based budgeting represents a fundamental shift away from traditional budgetary processes. Yet, successful implementation must necessarily build upon the past. Experience suggests the following important steps:

1. **Gain consensus and commitment from key players.** Public managers have primary responsibility for strategic planning, developing performance measures, and monitoring, while legislators approve budgets and allocate resources. Identifying shared expectations and goals early on will ensure that performance measures will be useful and used by all parties.

Interviews with legislators, budget personnel, agency managers, and others involved in the budget process can help identify their specific interests and concerns.

2. **Develop an implementation plan and timetable.** Implementing performance-based budgeting may take anywhere from six months to six years. An implementation plan should include a timetable for accomplishing key activities. The province or locality must decide whether to undertake implementation on a pilot or full-scale basis. While pilot projects allow one to test and refine ideas on a small scale, full-scale implementation reduces the length of time required to fully embrace the new budgeting process.
3. **Provide training in developing and using measures.** In addition to establishing new budget guidelines and instructions, governments must train agency managers, staff, and policy makers in the development and use of performance measures. Experience indicates that in-person training is essential to success.
4. **Review/develop strategic plans.** Strategic planning provides a long-term context for making budget decisions. Organizations that have already undertaken a strategic planning process and developed related performance measures will be ready to build upon those efforts. Those that have not yet engaged in planning efforts will find it helpful to do so prior to moving into performance-based budgeting.
5. **Develop the budget and allocate resources.** Various approaches to constructing the budget may be considered, but a program budget appears to be the one most adaptable to performance-based budgeting. Some method of allocating costs among objectives and tasks—such as activity-based costing—will need to be applied in order to link expenditures to performance goals.
6. **Develop supportive accounting and data systems.** Most governments will need to reconcile existing accounting and data systems with new performance systems. While performance systems are typically program-based, accounting structures often are not.
7. **Establish tracking and monitoring systems.** Governments must establish clear responsibilities for reporting and verifying performance information.
8. **Evaluate, report, and act on results.** Governments must evaluate agency progress and act on results. This may involve "rewards" for agencies with good performance, such as allowing the agencies greater operational flexibility or permission to retain costs savings. Alternatively, acting on results may involve heightened supervision, such as increased oversight and control, for agencies that fall short of their goals.

Implementation Tips

- Obtain commitment from and consensus between executive and legislative leaders.
- Establish a realistic time frame for implementation.
- Involve agency managers in the development of performance measures and budgets.
- In return for greater accountability for results, allow department managers greater flexibility in making spending decisions.
- Develop an accounting system that is not just an "overlay" to the traditional line-item budget.
- In order to allay fears or misconceptions, encourage communication among all stakeholders throughout the implementation process.

6

Contracting for Performance

Under pressure to accomplish more with less, provincial and municipal governments are increasingly contracting out the provision of many services to private sector and nonprofit vendors.

In Alberta, the government has transferred delivery of some services to a variety of third party service delivery agents. The government prescribes policies and standards to be followed and contracts with organizations to deliver certain services. The governement is still ultimately accountable to the public for ensuring that the services are properly delivered.

In the US, a 1995 survey indicated that the majority of 120 local governments contacted had contracted out janitorial services, street maintenance, park maintenance, printing and food service, and sections of health services, and transportation. Those surveyed report considerable cost savings, flexibility and competetition. Governments, they report, have the ability to purchase specialized skills on a short-term basis for performance improvements. On the other hand, reports of service interruptions and fraud have been reported by the press.

In Alberta, contracting out has included the operation of provincial campgrounds and various social services. Contracting out garbage management is common in Canadian cities. Less successful endeavors to date are contracting services for city park maintenance. Effectiveness of outcomes in terms of quality and cost and the human elements, are emerging.

Incorporating performance measurement into contract bidding and monitoring procedures allows governments to control the risks and help assure the quality of services to their citizens. The US city of Phoenix, for example, sets forth withholding clauses in its public works contracts; contractors who do not perform adequately are not paid until the problem is resolved.

Key Steps

Performance-based contracting works best when public agencies specify precisely what they want accomplished, assure competitive bidding for the task, evaluate a contractor's performance, and replace or penalize contractors who do not achieve expected results. Success also depends on developing a good partnership with vendors in order to work through the problems that inevitably arise. Key steps include:

1. **Identify appropriate services for competitive contracting.** Services best suited to outside contracting are those with easily identifiable goals, numerous potential bidders, in-house monitoring expertise, and the potential for significant cost savings. Anticipated political resistance and concerns about potential negative impacts on current employees must also be considered.
2. **Determine the full cost of in-house service.** Governments rarely calculate the full cost of delivering a product or public service, including direct costs, indirect costs, and overhead. Implementing activity-based costing allows a government to know how much it really costs to send out a water bill, fill a pothole, or do a building inspection. At the same time, it is important to recognize that contracting out involves costs beyond those fees directly charged by the service provider, such as the expense of monitoring performance outcomes.
3. **Prepare solicitation documents that define performance expectations.** Government must specify precisely what needs to be accomplished through the contractual arrangement. This means focusing on desired outcomes rather than merely describing what the government currently

does. Allowing vendors some flexibility to propose alternative ways of accomplishing those outcomes permits government to capitalize on the creativity of the competing parties.

4. **Identify potential contractors and solicit bids or proposals.** To make best advantage of market efficiencies, genuine competition must exist. Governments typically use an invitation to bid or a request for proposals to solicit potential contractors. It is important to consider other units of government, nonprofit organizations, and even the government's own employees as potential contractors. Some support or assistance might be necessary to prepare employees to bid on the service they currently provide, but doing so can help assure that the goal of true competition is achieved.
5. **Evaluate bids or proposals and award contract.** Factors to consider in evaluating bids or proposals may include cost, qualifications and experience, adherence to proposal requirements, and the extent to which the bid or proposal meets your organization's priorities and objectives.
6. **Implement ongoing performance monitoring.** A monitoring plan should be developed and agreed upon before the contract is signed. At a minimum, it should provide for periodic reports from the contractor, a verification process, inspection procedures, and a process for surveying customer satisfaction and responding to complaints. However, contract administrators often find it preferable to blend this "enforcement" approach with a "partnership" approach in which they work with vendors on an ongoing basis to respond to problems, enhance services, or in other ways go beyond the precise terms of the contractual arrangement.

Implementation Tips

- Define the contracted service in terms of desired results.
- Take steps throughout the process to involve employees and minimize displacement.
- Maximize competition, soliciting bids from the private sector, other units of government, and nonprofit organizations *as well as* providing appropriate training to support in-house bids.

7

Creating and Sustaining a Supportive Environment

Performance measurement has been described as a patient process which must be implemented in an impatient world.

Strategic planning and performance measurement systems may, in fact, require years to show improvements, while elected officials are more likely to focus on what can be accomplished before the next election. And with the onset of a new administration, even the most promising initiatives may be relegated to the shelf.

Furthermore, it is difficult to order a bureaucracy to change. Financial incentives to motivate public employees are seldom available, and the bureaucracy may resist changes initiated by top leaders who are typically viewed as simply passing through. Some may be concerned that they will be held accountable for results over which they have little or no control. Others may fear that performance information will be used against them.

Nonetheless, a number of city governments in the US (Phoenix, Charlotte, Sunnyvale) are showing remarkable success in managing for results over the long-term.

The Alberta structure for performance management compares well to other jurisdictions. A supportive environment is reflected in the government business plan identifying the core busineses as *People, Prosperity, and Preservation*. The basic questions in focusing on results of the core businesses are "Did the program/service make things better for Albertans?" , and " Did the government's activities help achieve the desired results?" The overarching lesson is that a strategic planning and performance measurement system cannot simply be imposed on top of the existing bureaucracy. Changes in attitude, work roles, management techniques, and organizational structures are essential to creating and sustaining an environment that supports results-oriented management.

Changes in organizational culture do not come quickly or easily. Unfortunately, all too often, little attention is given to managerial and employee training, to the exploration of alternative delivery systems, or other organizational changes. And, as noted earlier, effective communication among all stakeholders must be an ongoing priority.

Key Steps

Governments can create an internal environment that supports results-oriented management. Key steps include:

1. **Diagnose the organization.** Understanding the culture and disposition of your organization is vital in gauging its readiness, or ability, to develop and sustain a performance measurement system. Factors to consider include the overall relationship between management and employees, as well as between management and its overseers. Is there a system in place that rewards risk-taking? Are there adequate financial resources to take on the process of implementing change?
2. **Obtain and maintain visible commitment from top management**, then build an awareness of the need for change throughout the organization. If managers and employees fail to perceive and endorse a need for change, planning and performance measurement will amount to little more than a paper exercise. Benchmarking specific best practices can be a powerful tool, not only in building an awareness

of the need for change but also in illustrating tangible benefits to be gained.

3. **Provide adequate training and support.** Training in the mechanics of measuring performance and the positive uses of performance data can help build support for performance measurement efforts.
4. **Develop a communications plan.** Over time, increase communication among all those involved in the measurement program, transferring ownership from an initial small group to all public officials, employees, and elected officials. It is also important to communicate effectively with citizen stakeholders.
5. **Address personnel issues.** Talk with employees to allay any fears about changing over to a performance measurement system. Encourage their active participation in designing measures, and phase in the actual use of measures in making budgetary and personnel decisions.
6. **Consider enacting legislation to establish rules and guidelines.** While many governments prefer to build interest and support informally, others opt to launch strategic planning and performance measurement activities with the support of formal mandates from governing boards and legislatures.
7. **Establish an institutional base.** An institutional base—whether the budget office, the auditor's office, or as in Alberta, the Auditor General, or as in some US jurisdictions, a quasi-independent agency, or other institution—can serve as a focal point for measurement activities and help to ensure consistency and sustainability of performance measurement systems.
8. **Adopt a supportive organizational structure and management style.** Moving from an authoritative to more openly participative management style helps to reinforce a broad-based commitment to results.
9. **Integrate strategic planning and performance measurement with other management reforms.** The challenge is to integrate efforts such as performance measurement, quality management, business process reengineering, and strategic planning so that they complement one another and are not treated as stand-alone activities.
10. **Form alliances with other sectors.** Government cannot hope to accomplish all its goals by working alone. Forming alliances across sectors and organizations can greatly enhance the likelihood of achieving lasting results. The active, ongoing participation of outside organizations can also help sustain the improvement process across changing political administrations.

Implementation Tips

- ☞ Address the structural barriers to managing for results.
- ☞ Over time, increase communication among all those involved in the strategic planning and performance measurement program.
- ☞ Work towards some early successes. Celebrate, publicize, and build upon them.

Module 1

STRATEGIC PLANNING

Module 1

STRATEGIC PLANNING

An Overview for Workshop Participants

Alberta

GOVERNMENT OF ALBERTA

Module 1: Strategic Planning

An Overview for Workshop Participants

Strategic vs Business Planning

This module introduces the management concept of strategic planning. Strategic planning is a management technique intended to identify the strengths and weaknesses of the organization, the challenges and opportunities facing it, and its vision of the future and how it will seek to achieve its vision. Strategic planning focuses on the organization's long-term goals, assesses its capabilities to achieve those goals, examines environmental factors that may affect the organization, and identifies strategies designed to move the organization forward.

Strategic planning may sound similar to the business planning process adopted by the Alberta government, but differs in a few key ways. The critical distinction is that strategic planning is more of a planning technique intended to get the organization thinking strategically with a long-term perspective, while business planning builds from the strategic planning process and provides clarification of shorter-term actions necessary to achieve the desired future. The common thread for both processes is adopting a strategic mindset, where the organization focuses on the results to be achieved.

The business planning process adopted by the Alberta government is actually a hybrid of the two planning approaches. Similar to strategic planning, business planning in Alberta included identifying the organization's vision of the future and its core businesses. This required ministries to think strategically about the fundamental activities which define the ministry's reason for existence. The business planning elements provided details on what the ministry would do over the next three years, focusing on the strategies and operational activities it would implement to achieve its vision. The business plans also included measures of progress towards the ministry's goals, and identified the resources allocated in pursuit of the desired future.

At first glance, the Province of Alberta's efforts to respond to an ever worrisome debt load would seem to have little in common with the City of Calgary's attempts to cope with a rapidly growing economy and population. But a closer look reveals that both have used a process called strategic planning to help them take stock of their situations, set realistic goals, and figure out how to go about achieving them.

Strategic planning is a powerful tool for setting priorities and making informed decisions about the future. While the process has its roots in the private sector, provincial and local governments are increasingly turning to strategic planning to help them use their resources wisely in a rapidly changing environment.

Planning is certainly not new to government. Most of you have probably prepared operational plans or budgets, detailing what you intend to do in the coming year. And it is likely that many of you have prepared long-range or "comprehensive" plans. But strategic planning differs from these more commonly used forms of planning. Strategic planning:

- Emphasizes strategic thinking and acting, not the production of a planning document.

- Focuses on the future. It is designed to help an organization envision a desirable and attainable future.

- Takes a proactive approach to management. It is more than simply anticipating changes and reacting to them. Organizations that manage strategically seek to interact with and shape their environment so that they can successfully attain their goals and realize their vision.
- Is action-oriented and focused on achieving results.

- Draws attention and resources to the most critical issues facing an organization rather than trying to address all issues at once.

- Places greater emphasis on the formation, maintenance and alignment of broad-based coalitions of individuals and organizations–often across jurisdictional boundaries–to work towards common goals.

Strategic planning has been described as a guide map to "what an organization is, what it does, and why it does it."[1] Through the strategic planning process, you will be asked to address such key questions as:

- What business are we in?
- What is our vision of the future?
- What are our underlying purposes, directions, and values?
- What do we do best?
- Who are our stakeholders?
- Who are our target clientele?
- How well are we performing?
- Are we satisfying our key interests?
- What opportunities or threats exist that we should exploit or avoid?
- What weaknesses should be corrected?
- Are we productive and effective in what we do? How do we know?
- Do we learn from our experience?

By focusing attention on these basic organizational questions, strategic planning often involves or results in fundamental changes in organizational culture, image, mission, and direction.

Why Undertake Strategic Planning?

Sometimes a crisis–whether an announcement of a major plant closing or rapid growth that threatens to overwhelm existing facilities–jars a government into taking a more strategic look at its future. And sometimes it is the wish to get away from just such crisis-driven decision making that prompts strategic planning initiatives.

While it certainly cannot be regarded as a panacea or a quick fix, a well-conceived strategic planning process can help you:[2]

- Clarify future direction;
- Establish priorities;
- Develop effective strategies;
- Consider the future consequences of your decisions;
- Deal effectively with rapidly changing circumstances;
- Improve internal management and organizational performance;
- Build internal teamwork and expertise;
- Build external partnerships and increase co-ordination; and
- Strengthen relationships with clients and customers.

Reasons for developing strategic planning in Alberta relate to concerns of Albertans about the value they are receiving for their tax dollars. Citizens also expect the services provided by government to be of top quality and to

enhance their quality of life. The fundamental questions of program quality and effectiveness are addressed in determining whether government programs are improving Albertans' quality of life. The determination of value may require a qualitative description rather than a quantitative measure.[3]

Strategic planning and performance management are reform efforts to improve resource allocation, other policy decisions, public management and to help rebuild confidence in government.[4]

Most importantly, the process, if properly designed and managed, can improve the decision making process, leading to better public policy choices.

Why Did the State of Texas Turn to Strategic Planning?

- To move away from crisis driven decision making by establishing statewide direction in key policy or functional areas;
- To provide a basis for aligning resources in a rational manner to address the critical issues facing the state now and in the future;
- To make state government more responsive to the needs of Texans by placing greater emphasis on benefits and results rather than just service efforts and workload;
- To bring focused issues to policymakers for review and debate;
- To provide a context to link the budget process and other legislative processes with priority issues, and to improve accountability for the use of state resources;
- To establish a means of co-ordinating the policy concerns of public officials with implementation efforts and to build interagency, intergovernmental and public/private/non-profit partnerships; and
- To provide a forum for communication between service providers and the constituents they serve.[5]

Strategic Management

Strategic planning is increasingly seen as a basic tool of good management. Strategic "management" is an ongoing process that integrates strategic planning with other management systems. It is externally oriented, issue-focused and opportunity-seeking.

By expanding beyond the notion of strategic planning as an "exercise" that the organization goes through (as indicated by comments such as "we've done strategic planning" or "here is a copy of our strategic plan") and by incorporating the concepts and tools of quality management (customer-focus, continuous process improvement, and employee involvement), benchmarking best practices (see Module 2), performance measurement (see Module 3), and performance-based budgeting (see Module 5) into its strategic planning process, an organization can realize the real potential of strategic planning. That is, an organization can:

- Constantly learn from its environment and adapt accordingly;
- Become mission-driven, integrating its vision and mission with its goals and objectives, performance measures, budget, job descriptions, and employee performance appraisal systems;
- Become customer-focused;
- Build teamwork;
- Gain credibility and trust as an organization; and
- Achieve excellence.

The Strategic Planning Process

There is no one best way to approach strategic planning. The strategic planning process can be undertaken at virtually any level–a department, organization, program, and/or the entire community (a city, county, region, or state). Processes are often as simple as an annual retreat in which departmental staff or a city council goes away for two or three days to assess where they are, where they want to be, set goals and decide among alternative strategies.

On the other end of the spectrum are large scale US examples like "Oregon Benchmarks" and "Minnesota Milestones"–processes that were statewide in scope and involved complex, long-term organizational structures, staffing and support. In between you can find numerous examples of city or countywide strategic planning processes.

In Alberta, business planning in the government is part of Alberta's commitment to be open and accountable to the public. The over-all process is reflected in the annual Government and Ministry business plans. In Figure 1., *A Framework for Accountability*, the Auditor General of Alberta illustrates the fit of the strategic planning process into the over-all accountability framework.

Regardless of the approach, successful, *results-driven* strategic planning addresses four major questions:

1. Where are we now?
2. Where do we want to be in the future?
3. How will we get there?
4. How do we measure our progress?

(See *Figure 2*, page 6.)

Strategic planning is often depicted as a linear process, with one step flowing logically to the next. In actual practice, however, successful strategic planning demands continuous learning from both successes and failures. Key steps include:

Figure 1.

A Framework for Accountability

A Government Accountability Framework

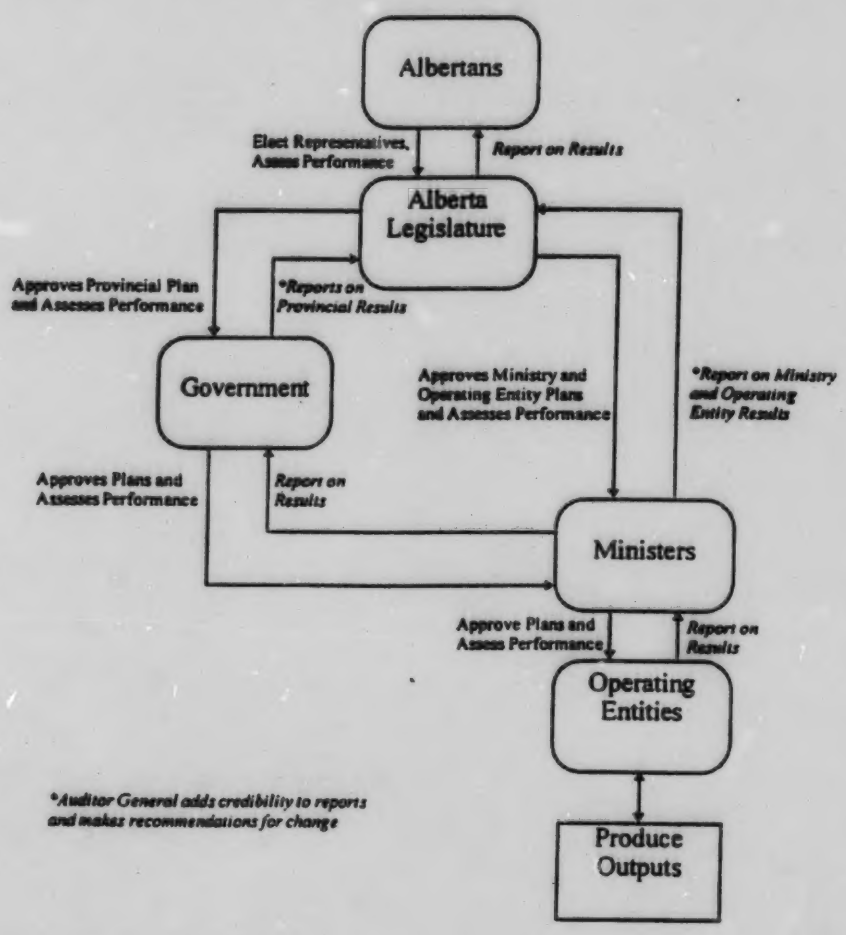
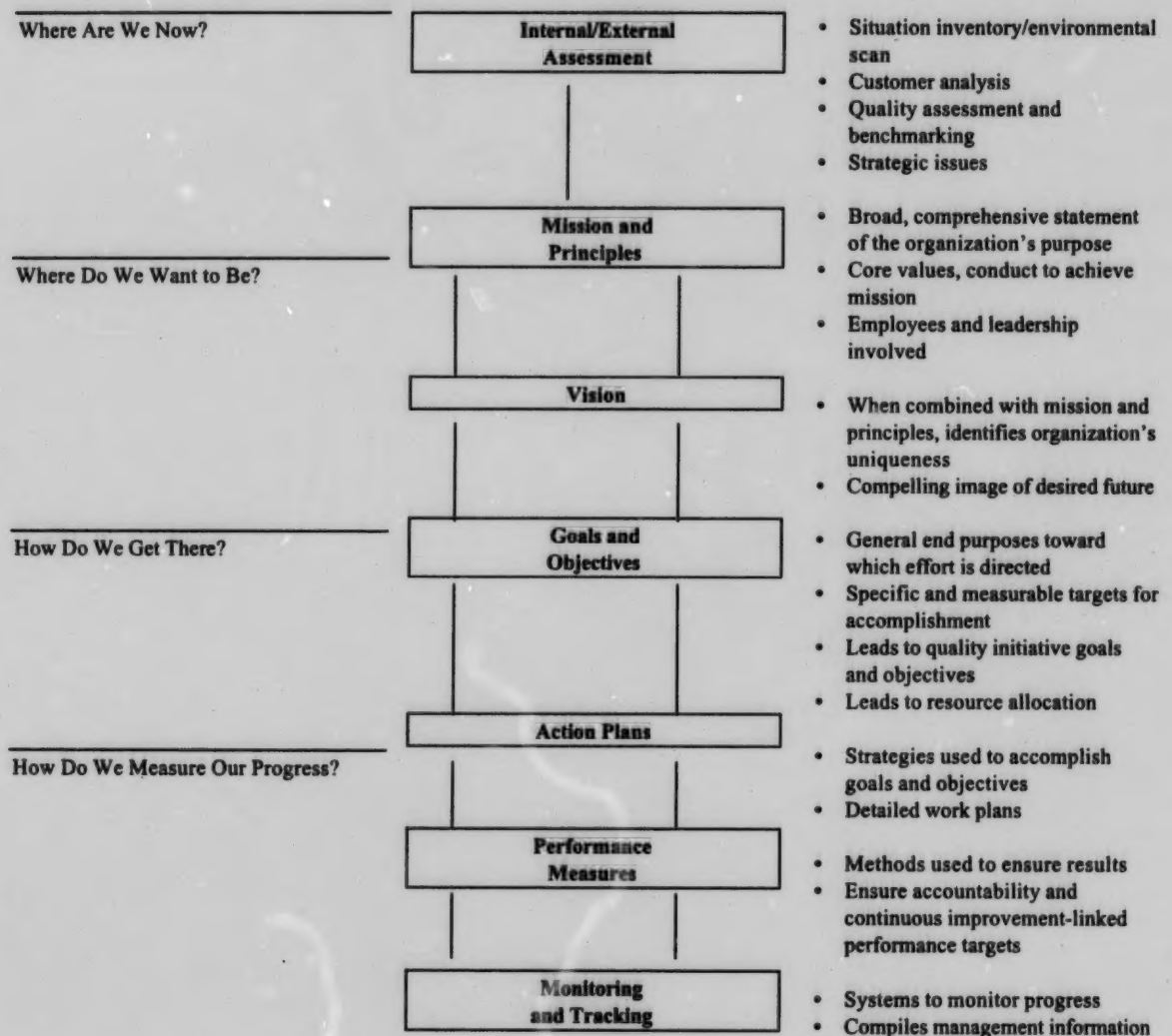

Albertans
Elect Representatives, Assess Performance
Report on Results
Alberta Legislature
Approves Provincial Plan and Assesses Performance
*Reports on Provincial Results
Government
Approves Ministry and Operating Entity Plans and Assesses Performance
*Report on Ministry and Operating Entity Results
Approves Plans and Assesses Performance
Report on Results
Ministers
Approve Plans and Assess Performance
Report on Results
Operating Entities
Produce Outputs
*Auditor General adds credibility to reports and makes recommendations for change

Figure 2

Goal, Objectives and Performance Measures as Elements of Strategic Planning


Where Are We Now?
Internal/External Assessment
Situation inventory/environmental scan
Customer analysis
Quality assessment and benchmarking
Strategic issues
Mission and Principles
Where Do We Want to Be?
Broad, comprehensive statement of the organization's purpose
Core values, conduct to achieve mission
Employees and leadership involved
Vision
When combined with mission and principles, identifies organization's uniqueness
Compelling image of desired future
How Do We Get There?
Goals and Objectives
General end purposes toward which effort is directed
Specific and measurable targets for accomplishment
Leads to quality initiative goals and objectives
Leads to resource allocation
Action Plans
How Do We Measure Our Progress?
Strategies used to accomplish goals and objectives
Detailed work plans
Performance Measures
Methods used to ensure results
Ensure accountability and continuous improvement-linked performance targets
Monitoring and Tracking
Systems to monitor progress
Compiles management information
Keeps plan on track

Source: State of Arizona, *Strategic Planning Workshop*, 1994

Step One: Planning to Plan.

This is the critical first step in which the organization assesses its readiness to engage in strategic planning and designs a planning process to match its purposes, resources, and political environment.

Before moving ahead, key players need to come to an agreement regarding the:

- Purpose of and need for the effort;
- Organization's readiness, in terms of staff and financial resources, culture and commitment;
- Form and timing of any reports;
- Commitment of technical and financial resources;
- Steps/process to be followed; and the
- Organizational arrangement to be used to carry out the planning process.

The most common organizational arrangement involves the formation of a steering committee along with a number of task groups. The steering committee is generally responsible for overall direction and decision making. Task groups typically make recommendations to the steering committee based on in-depth examinations of particular issue areas.

Step Two: Gaining and Sustaining Commitment.

Identifying and involving key stakeholders, whether legislators, government employees, or citizens, is essential to strategic planning. Be sure to conduct a broad search in order to prevent turning up just the "usual suspects." In fact, you might consider forming a special public involvement or outreach committee to plan, organize and implement involvement activities.

Techniques that governments have used to involve citizens and other stakeholders in the planning process include:[6]

- Surveys, media announcements, descriptive brochures and community meetings at the launching of the strategic planning process.
- Public meetings, focus groups, surveys, periodic newsletters, newspaper inserts and electronic town meetings at key decision points in the process–not only to provide reactions to pending decisions but to guide future tasks as well.
- Hot lines, speakers' bureaus and facilitation services throughout the process to respond to inquiries and organize discussions.

Sustaining stakeholders' commitment is equally important. Keys to sustaining commitment are to:

- Continually and visibly demonstrate the commitment of the organization and key players to the process;
- Make the process meaningful and high profile;
- Set a realistic timetable;
- Set realistic and appropriate expectations for those involved in the process;
- Use opportunities to celebrate milestones;
- Look for and exploit opportunities for quick, interim successes; and
- Continually communicate what is going on to those in the organization or broader community.

Step Three: Analyzing Customer and Stakeholder Needs and Desires.

Just as successful businesses pay close attention to the needs of their customers, governments are also adopting a customer orientation. This means seeking the advice of customers and other stakeholders early on in the planning process.

Customer and stakeholder input is particularly important in defining the organization's vision, mission, values and also can help in identifying gaps between expectations and current performance.

Step Four: Analysis of Organizational Strengths, Weaknesses, Opportunities and Threats.

In order to develop realistic plans, you need to take a hard look at your organization's internal strengths and weaknesses, as well as scan the external environment for potential opportunities and threats that you may face in the future.

The examination of internal strengths and weaknesses should focus on issues such as the organization's structure, its culture, its employees and its fiscal status. Sources of information may include:[7]

- Employee surveys
- Customer surveys
- Policy development files
- Internal databases
- Budget requests
- Annual reports
- Program evaluations
- Agency audit recommendations
- Internal plans

The external assessment is an equally important feature of the strategic planning process–and one which distinguishes it from other more commonly used planning practices. It represents an attempt to see where the organization stands in the context of past trends, current realities and future possibilities.

External factors which can have a powerful effect on a community or organization include population shifts, economic conditions, regulatory changes and technological developments. Sources of information may include:[8]

- Federal and provincial government statistical reports and databases
- Federal, provincial and local government legislation, regulations, budgets, policy statements and special studies
- Court decisions and actions
- National and regional professional associations or organizations
- Interest or advocacy groups
- Media
- University and college resource centers
- Agency advisory and governing boards

Step Five: Setting a Strategic Direction.

Understandably, we often lose sight of our organization's broad purposes in the crush of day-to-day demands on our time. Strategic planning allows us to step back from our everyday tasks and ponder this bigger picture–to set a strategic direction for the organization by articulating our values, vision and mission.

Why is setting a strategic direction so important? Because it creates an organizational identity. Knowing "who we are" and what we are trying to achieve:

- Helps us set priorities among competing demands for time;
- Helps us make judgments about how to handle specific tasks or customers;
- Helps build a sense of teamwork and morale among staff; and
- Imparts the long-term perspective needed to bring about a real change in conditions.

In sum, a well-defined and understood strategic direction "makes everyone's job better–and everyone better at their job."[9]

A *vision* statement has been described as "a view of a realistic, credible, attractive future...a target that beckons."[10] Good vision statements are inspirational, clearly understood and brief enough to remember.

There are a variety of approaches to developing a vision statement, including:[11]

- Reviewing the analysis of strengths, weaknesses, opportunities and threats;
- Holding brainstorming sessions;
- Drawing graphic visions of the future;
- Conducting imaginary future trips through the agency or community;
- Pretending you are a planning committee from the future that is writing a report on accomplishments in the intervening years; and
- Exploring visions developed for other agencies or communities.

Vision Statement
Government of Alberta

"A vibrant and prosperous province where Albertans enjoy a superior quality of life and are confident about the future for themselves and their children."

An organization's *mission* is, quite simply, the reason for its existence. A good mission statement should address the following types of questions:

- Who are we?
- Whom do we serve?
- What are the basic purposes for which we exist?
- What basic problems were we established to address?
- What are we trying to achieve?
- What makes us distinctive or unique?

Mission Statement
City of Goose Creek

The City of Goose Creek seeks to serve the needs of citizens for a safe, secure and healthy environment, facilitates planned, managed growth and economic development.

The Alberta government is committed to the following MISSION: "An open and accountable government that leads the province in achieving its vision and ensures Albertans have access to quality programs and services at an affordable cost."

An organization's *values* are those principles that guide its behavior. They define the organization's management style and rules of personal and agency behavior. Value statements often address such topics as:[12]

- Respect for both customers and employees;
- Ethical and professional standards of conduct;
- Equal opportunity policies; and
- An emphasis on quality services.

City Value Statement

- We treat each employee and citizen with honesty, consideration and respect.
- We are committed to keeping taxes and service charges reasonable.
- We always look for a better way.
- We know that an active partnership with the community is vital to our success.
- We know that the city is in the business of customer service and the citizens are our shareholders.
- Laws and regulations are necessary to promote the health, safety and welfare of our community and we apply them fairly and reasonably.

Step Six: Identifying Strategic Issues.

You will undoubtedly identify more issues than you can address and manage at one time. Setting priorities will allow you to focus on the most important and/or urgent issues.

Strategic issues are issues that are critical to the future of the organization–issues that *must* be addressed in order for the organization to carry out its mission. Perhaps in your organization these are pressing customer concerns, or perhaps they are high-profile public policy issues.

In order to identify your organization's strategic issues, you need to ask:

- What is the issue?
- Why is it an issue?
- Who says it is an issue?
- How do we know it is an issue?
- What factors make it a strategic issue?
- Can we do something about it?
- What are the consequences of failing to address this issue?

Step Seven: Developing Goals, Objectives and Performance Measures.

If you know where you are and where you want to go, you can begin to plot a course to that vision. *Goals* are one of the basic navigational tools that can help you chart the future direction of your organization. Goals are broad, issue-oriented statements that begin to focus actions towards clearly defined purposes. Goals are often tied to specific strategic issues, such as education or public safety.

As you develop goal statements, consider the following questions:[13]

- Are the goals in harmony with your organization's legislative mandate, vision, mission, and value statements? Will achievement of the goals fulfill or help fulfill the vision and mission?
- Do the goals reflect your organization's strategic issues and priorities?
- Do the goals provide a clear direction for action?
- Are the goals long-range/unrestricted by time?

Alberta Treasury Goals for 1998-2001

1. A healthy sustainable financial position.
2. An accountable government.
3. A fair, competitive and simple provincial tax system managed efficiently and effectively.
4. Investment returns maximized and borrowing costs minimized subject to acceptable risk.
5. An efficient, fair and competitive capital market and an efficient and fair regulatory environment for financial institutions.
6. Quality financial services to Albertans throughout Alberta Treasury Branches, Alberta Municipal Financing Corporation and Alberta Pensions Administration Corporation.

The next step is to specify *objectives*, or expected accomplishments along the way. Objectives have been defined as "quantifiable interim steps toward achieving an agency's long-range vision and goals. Linked directly to goals, objectives are measurable, time-based statements of intent. They emphasize the results of agency actions at the end of a specific time period."[14]

Louisiana, as well as other jurisdictions that use the term, identify the criteria for well-written objectives by the acronym SMART:[15]

Specific. Objectives reflect specific accomplishments that are desired, not the ways (strategies) to accomplish them. All objectives should be capable of generating specific strategies or actions. An objective should also be detailed enough to be understandable and give clear direction to others.

Measurable. An objective must be measurable. It is at this level that a clear linkage is made to performance measurement (see Module 3 of this curriculum for more detailed information on performance measurement). To the extent that a goal has measurable objectives, the attainment of the goal itself can be measured.

Aggressive but Attainable. If objectives are to be standards for achievement, they must be challenging but realistic and within the ability of the organization to achieve. They ought not to demand the impossible. This is in contrast to the vision, or even goals, which may be beyond one organization's capacity to achieve alone, and thus require aligned, co-operative efforts among multiple organizations.

Results-oriented. Objectives should specify results or outcomes, not ways to accomplish them.

Time-bound. Each objective should have a specific time frame for attainment.

Alberta Justice Objectives

Goal: To promote safe communities in Alberta.

Objective 1: Focus the resources of Alberta Justice on serious and violent crime.

Objective 2: Prevent crime through community policing.

Objective 3: Work with stakeholders to improve the administration of justice.

Unfortunately, having goals and objectives is not enough. Without a mechanism to assess progress and help correct course from time to time, many feel that it is doubtful that public organizations will meet their goals.

A successful strategic planning process builds in accountability for results–it does not treat evaluation as an afterthought, an exercise that is undertaken a year or more after the plan is completed. Performance measures should be included *as part of* the strategic plan and be used to assess progress towards goals and objectives over time.

Module 3 of this curriculum–Performance Measurement–provides a detailed discussion of performance measures and their development.

Sample Performance Measures
Sanitation Department

Goal: To contribute to a clean and healthy environment through regular collection of refuse from properties within the city.

Objective: To maintain a high quality of service while minimizing customer inconvenience, ensuring that streets are rated as acceptably clean at least 90 percent of the time.

Performance Measures:

- Percentage of streets rated as acceptably clean
- Average customer satisfaction rating
- Percentage of customer complaints resolved within 24 hours

Step Eight: Devising Strategies and Action Plans.

Once you know where you are headed, the next step is to determine *how* to get there. Strategies are methods used to accomplish goals and objectives. More than one strategy may be needed to accomplish each objective.

You may want to begin by reviewing existing strategies. Do you think that they will meet your goals and objectives? Can they be modified to increase their effectiveness, or are entirely new initiatives needed? What types of strategies have other organizations used successfully to meet similar goals?

Evaluation of potential strategies will help you narrow down your choices. In making judgments about workable strategies, the following should be considered:

- Does the strategy reflect our legislative mandate, vision, mission and values?
- Is the strategy clearly linked to the accomplishment of a particular goal and objective?
- Is the strategy realistic given political considerations, staffing requirements, and costs?
- Is the strategy technically feasible?
- Will the strategy be accepted by key stakeholders?
- Is the strategy compatible with other strategies?

Step Nine: Implementing the Plan.

Once you have selected appropriate strategies, an action plan should be developed to provide detail on how each strategy will be implemented. Action plans should specify:

- Staff assignments
- Action steps
- Schedules and deadlines

- Cost and expenditure information
- Sources of funding

Communicating and marketing the plan need to be key components of the implementation process. "Business executives and agency directors can regale you with stories about marathon strategic planning retreats where they write and agree to mission and goal statements that then go nowhere," observes Janet Topolsky in *Heading Home*, a major report of the 1992 Commission on the Future of the South. "Sometimes it's because the plans and decisions are communicated nowhere. Staff–and customers–are left in the dark, with no expectations and no information."

Some suggested ways of communicating your message include:[16]

Internally:

- Talk about it at staff meetings;
- Write articles in internal newsletters or post it on your internet;
- Display highlights in prominent locations; and
- Recognize and celebrate accomplishments.

Externally:

- Put your mission on letterhead/business cards;
- Write articles in newsletters;
- Issue press releases;
- Reference the plan in speeches;
- Participate in media interviews;
- Work with newspaper editorial boards;
- Produce a video; and
- Initiate a special newsletter dedicated to the plan's implementation.

Elections, changes in administration and various crises can and often do bring processes to a quick end, with visions and goals left unrealized. This can serve to demoralize stakeholders and erode their confidence and trust in the organization. Strategies to institutionalize the process should be developed right from the start. Most importantly, the plan must be linked to the organization's budget, work plan and other decision making processes. It needs to be made part of a system of strategic management.

Step Ten: Measuring Performance/Evaluating Results.

Evaluation serves as the feedback loop in the strategic planning process and completes the cycle from planning to performance. It is essential to sustaining and institutionalizing strategic management over time.

Attention needs to be given to three different types of monitoring and evaluation:

Performance monitoring
Performance monitoring and reporting should be done on at least a quarterly basis. Regular monitoring not only helps to identify problem areas that may need to be revisited, but can also bring to light strategies that are working particularly well and might warrant replication in other settings.

Key questions include:

- Are we moving toward our vision?
- Are we carrying out our mission?
- Are we behaving in ways that are consistent with our organizational values?
- Are we meeting stakeholders' expectations?

Process monitoring
You should also monitor and evaluate the processes you use to plan and make decisions.

- Is our organization better now than it was before we undertook the planning process?
- Would we do it again given what we know now? If so, what would we change?
- Have the stakeholders become part of our team? How do we sustain these relationships?

Environmental monitoring
The outside world is constantly changing. In order to keep up with these changes, monitoring your external environment needs to be a regular ongoing task. It is particularly important to pay attention to changing conditions, needs, and technologies, as these and other outside events will impact the assumptions on which your plan has been based.

Who Should Be Involved?

Although strategic planning can be initiated by the public, nonprofit, or private sectors, the most successful efforts involve all sectors in a co-operative partnership. Why? First, consideration of a variety of perspectives is most likely to result in an accurate picture of current problems and identification of effective solutions. Second, government will invariably need the co-operation of all of these partners in implementing the plan. It is well known that people are most committed to carrying out plans that they have made themselves.

Participants should be recruited with the following in mind:[17]

- What are the perspectives necessary to credibly and effectively define problems and create solutions?
- What are the interests that must be represented in order to reach agreements that can be implemented?
- Who is necessary to implement solutions? Who can block action? Who controls resources?
- Who will be affected by the plan and its solutions?

Public Involvement in the Strategic Planning Process

Alberta Growth Summit '97, an Alberta consultation process, began in January 1997 and culminated on September 29 and 30 with a two-day session in Edmonton.

The process involved hundreds of Albertans. More than 40 mini-summits were held from Peace River in the north to Lethbridge in the south. Six sector groups addressed issues in government, social economy. MASH (municipalities, academic institutions, schools and hospitals), business and industry, energy and agriculture and rural development. Hundreds of presentations were made and over 170 submissions were received. A poll of Albertans' views were taken and the results were widely shared.

Implementation Tips

While it appears that almost any organization can benefit from strategic planning, the process is not without its risks and pitfalls. In fact, there are a number of factors that are unique to the public sector environment that can affect the planning process. These include:

- The powerful claims of special, often competing and conflicting interest groups;
- Demands for short-term or immediate action instead of longer-term perspectives;
- Stubborn resistance to forces of change;
- The difficulty of securing sufficient funds from a diminishing supply of resources to satisfy increasing social service demands;
- The difficulty of "leading" in a shared power, fragmented environment where no one person or entity is truly in charge; and
- The strain and frustration of working with and in unwieldy bureaucracies.

Given these conditions, some management experts have questioned whether private sector experience in strategic planning can be applied to the public sector. John Bryson, however, counters that the strategic planning process recognizes and builds on the political nature of a governmental decision making environment. An environment that is characterized by shared-power, fragmentation and a lack of consensus on what to do about critical, strategic issues. Working within the process, stakeholders can engage in dialogue, learn and come to agreement (if not consensus) about alternative choices.

The following conditions help maximize the chances for successful outcomes in the strategic planning process:

- Key stakeholders support the process in word and deed, e.g., active participation, allocating sufficient resources, selling the process and committing to the outcomes;
- The "right people" are involved and stay involved. All stakeholders must believe that they have the opportunity for meaningful participation in the process;
- There is a process champion(s)—a person who can facilitate interaction between key decision makers;
- Process leaders are flexible, patient and maintain a sense of humor. Remember, things almost certainly will not go as you expect;
- The structure and details of the process are not allowed to become an end rather than a means;
- The process is kept as simple as possible. The process is integrated into the work flow rather than being tacked on or viewed as additional work;
- The process is tailored to the particular organization and political environment;
- There is trust in the process; don't try to shortcut it or manipulate it to shape the outcomes;
- Accountability and follow-up are built into the process from the beginning;
- The process is designed and conducted openly, honestly and with integrity;

- Plenty of training is provided to the participants on the process, the meaning of terms, group decision making skills, and teamwork;
- The process and its outcomes are actively communicated and marketed; and
- There is work towards and celebration of some early successes.

Suggested Readings for More Information about Strategic Planning

Bennis, W. & Nanus, B. *Leaders: The Strategies For Taking Charge*. New York: Harper & Row Publishers, 1985.

Bryson, J. M. *Strategic Planning for Public and Nonprofit Organizations: A Guide to Strengthening and Sustaining Organizational Achievement*. San Francisco: Jossey-Bass Publishers, 1990.

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Chrislip, D. C. & Larson, C. C. *Collaborative Leadership: How Citizens and Civic Leaders Can Make a Difference*. San Francisco: Jossey-Bass Publishers, 1994.

Dodge, W. and Montgomery, K. *Shaping A Region's Future: A Guide to Strategic Decision Making for Regions*. Asheville, NC: Land-of-Sky Regional Council, 1995.

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Stacey, R. D. *Managing the Unknowable: Strategic Boundaries Between Order and Chaos in Organizations*. San Francisco: Jossey-Bass Publishers, 1992.

Starling, G. *Managing in the Public Sector*. Chicago: The Dorsey Press, 1986.

Wheatley, M. J. *Leadership and the New Science: Learning About Organization from an Orderly Universe*. San Francisco: Berrett-Koehler Publishers, 1992.

Wilkinson, G. W. *How to Prepare for Change: The Strategic Management Challenge*. New York: United Way of America, 1990.

Some Interesting Applications

The following are American states that have undertaken comprehensive, statewide strategic planning processes or have worked intensively with agencies in their strategic planning efforts. Most have, or are in the process of, integrating strategic planning with performance measurement and budgeting.

Oregon Benchmarks
Oregon Progress Board
775 Summer Street, NE
Salem, Oregon 97310
(503) 986-0039

Minnesota Milestones
Minnesota Planning
658 Cedar Street
St. Paul, Minnesota 55155
(612) 297-2436

Louisiana's *MANAGEWARE*
Louisiana Department of Administration
Office of Planning and Budget
P.O. Box 94095
Baton Rouge, Louisiana 70804
(504) 342-7005

Arizona's *Managing for Results*
Governor's Office of Strategic Planning and Budgeting
1700 West Washington, Suite 500
Phoenix, Arizona 85007
(602) 542-5381

Endnotes

[1] John Bryson, *Strategic Planning for Public and Nonprofit Organizations: A Guide to Strengthening and Sustaining Organizational Achievement*, revised. (San Francisco: Jossey-Bass Publishers, 1995).

[2] J. Koteen, *Strategic Management in Public and Nonprofit Organizations* (New York: Praeger, 1991).

[3] Alberta Treasury, *Measuring Performance, A Reference Guide*, September 1996.

[4] Mayne, J. and Zapico-Goni, E., *Monitoring Performance in the Public Sector*, 1997.

[5] *Planning for Texas Tomorrow: Instructions for Preparing and Submitting Agency Strategic Plans* (Austin, TX: Governor's Office of Planning and Budget and the Legislative Budget Board, December 1993), pp. 1-2.

[6] William Dodge and Kim Montgomery, *Shaping a Region's Future: A Guide to Strategic Decision Making for Regions* (Asheville, NC: Land-of-Sky Regional Council, 1995), pp. 42-43.

[7] Adapted from *MANAGEWARE: A Practical Guide to Managing for Results* (Baton Rouge, LA: Louisiana Office of Planning and Budget, January 1995), p. SP-25.

[8] Ibid.

[9] Janet Topolsky, *Heading Home: New Directions for Southern Progress* (Research Triangle Park, NC: Southern Growth Policies Board, 1993), p. 21.

[10] W. Bennis and B. Nanus, B. *Leaders: The Strategies for Taking Charge* (New York: Harper & Row Publishers, 1985).

[11] Dodge and Montgomery, pp. 100-101.

[12] *Planning for Texas Tomorrow: Instructions for Preparing and Submitting Agency Strategic Plans*, p. 18.

[13] Adapted from *Planning for Texas Tomorrow: Instructions for Preparing and Submitting Agency Strategic Plans*, p. 24 and *Arizona Strategic Planning Workshop*, p. 23.

[14] *Planning for Texas Tomorrow: Instructions for Preparing and Submitting Agency Strategic Plans.*

[15] *MANAGEWARE: A Practical Guide to Managing for Results*, p. SP-51.

[16] Ibid., p. SP-14.

[17] D.C. Chrislip and C.C. Larson, *Collaborative Leadership: How Citizens and Civic Leaders Can Make a Difference* (San Francisco: Jossey-Bass Publishers, 1994).

Module 2

BENCHMARKING BEST PRACTICES

Module 2

BENCHMARKING BEST PRACTICES

An Overview for Workshop Participants

Alberta
GOVERNMENT OF ALBERTA

Module 2:..... Benchmarking Best Practices

An Overview for Workshop Participants

Through a process called *benchmarking*, an organization that wants to improve its performance may do so by adapting and implementing key practices that make other organizations outstanding. Borrowing from the terminology of surveyors, those who use this technique assess their own operations or condition in relation to a carefully defined *benchmark*–usually, the condition or achievement level of an outstanding counterpart or, in some cases, a recognized standard–and proceed to find ways to elevate their own organization's performance toward that benchmark.

Benchmarking has been defined in simplest terms as "learning from the pros."[1] Benchmarkers decide which of their own processes hold the keys to future success, identify "best in-class" performers of those crucial operations, examine the practices of best-in-class performers, note differences that distinguish those practices from their own operations, and adapt key practices for their own use in an effort to close the performance gap. Projects often focus on quality, cost, and/or speed of operation. The impressive results achieved through this process have made benchmarking an important element in many applications of total quality management (TQM). The objectives of benchmarking–learning from top performers and adopting "best practices"–are consistent with the drive for continuous improvement common among many leading public and private sector organizations.

Defining Benchmarking

Xerox Corporation is credited with originating the practice of benchmarking among American companies. Xerox's chief executive, David Kerns, defined benchmarking as "the continuous process of measuring products, services, and practices against the toughest competitors or those recognized as industry leaders." Robert Camp, the logistics engineer who initiated Xerox's benchmarking program and who is generally regarded as the guru of the benchmarking movement, offered an even simpler definition. "Benchmarking" says Camp, "is the search for industry best practices that lead to superior performance."[2]

Other experts have offered a variety of definitions of benchmarking. Some are rather complicated, but others are quite simple. Although a bit lengthy, the following definition is especially appealing because of its simple language:

> *Put quite simply, benchmarking is the art of finding out–in a completely straightforward and open way–how others go about organizing and implementing the same things you do or that you plan to do. The idea is not simply to compare your efficiency with others but rather to find out what exact process, procedures, or technological applications produced better results. And when you find something better, to use or copy it–or even improve upon it still further.*[3]

Although many of the earliest and best known instances of benchmarking involved private sector corporations, nothing about the philosophy or logic of benchmarking renders it inapplicable or inappropriate to the public sector. Just as in the case of total quality management (TQM), the philosophy of benchmarking emphasizes continuous improvement. Every organization, even those that already are outstanding, can and should strive to get better. The logic of benchmarking suggests that the best place to look for ideas to improve our products and services is in the processes of organizations that already are achieving extraordinary results. The philosophy is appealing and the logic is simple–and clearly applicable to federal, provincial and local government.

History of Benchmarking: First the Private, Then the Public Sector

Benchmarking lore credits Xerox Corporation with initiating the process in the United States in the late 1970s.

Previously, corporate strategies to learn from others focused primarily on the finished products of competitors, often relying on "reverse engineering" to unravel product design clues. Such endeavors were almost never undertaken with the co-operation of the company whose products were being examined. The approach taken by Xerox was startlingly different.

Xerox's approach focused on key *processes*, rather than simply on finished products, and highlighted distinctive elements of those processes that accounted for product superiority. Importantly, Xerox's benchmarking strategy recognized that many processes are not unique to a single industry and that comparisons need not be confined strictly to one's competitors. In fact, Xerox and other benchmarkers now believe that breakthrough advances are more likely to occur by adapting lessons learned from leaders operating in entirely different industries. Processes developed in other industries offer fresh perspectives and therefore can sometimes yield substantial gains. The approach taken by Xerox relied on co-operation among a variety of benchmarking partners across several industries, each willingly sharing information with the others in hopes that it, too, would gain important insights to improve its own processes.

A few other companies began to follow Xerox's lead in the early and mid-1980s, but by the end of the decade the benchmarking movement had been supercharged by two developments. One was Congress' 1987 adoption of the Malcolm Baldrige National Quality Improvement Act, which established an annual Quality Award. The award's criteria emphasized documentation of superior standing through external comparison, with candidates required to demonstrate how their quality practices and results compared with other "world-class" or "best-in-class" organizations. Companies that aspired to be recognized for their excellence were encouraged to benchmark their performance.

The second major development propelling the benchmarking movement was the 1989 publication of a book entitled *Benchmarking: The Search for Industry Best Practices that Lead to Superior Performance*, written by Xerox's Camp and including descriptions of that company's approach and experience. Coinciding with the book's release, Xerox Corporation was named a 1989 Baldrige Award winner, spurring widespread interest in Xerox practices in general and benchmarking, in particular. By the early 1990s, an estimated "60-70 percent of the nation's biggest companies" were engaged in benchmarking.[4]

Within a decade following its introduction, benchmarking had distinguished itself as an important tool for performance improvement in corporate America. In several highly publicized cases, benchmarking corporations were learning and benefiting from what would have seemed unlikely partnerships in the pre-benchmarking era. Xerox learned from L. L. Bean, a clothing store catalogue retailer; Motorola from Domino's Pizza; and Digital Equipment Corporation (DEC) from a seemingly illogical set of partners that included Scott Paper, Campbell Soup, Whirlpool, Boeing, Hewlett-Packard, and Apple.

Gradually, public sector benchmarkers joined the action and began to report similarly favorable results. The Milwaukee fire department benchmarked its counterpart in Portland, Oregon, and reduced the rate of fire deaths in a targeted high-incidence area by one-third.[5] The New York City Transit Authority improved its inventory and logistics management operations by benchmarking with Federal Express, United Parcel Service, and Delta Airlines, as well as with transit authorities in Houston, Detroit, Montreal, Tokyo, and Stockholm.[6] The U. S. Mint, which not only produces the nation's money but also sells coins to collectors, turned to Lenox China and Black & Decker for ideas to improve its sales operations.[7] In the mid-1990s, the state of West Virginia drew on the experiences of a combination of public and private sector partners as it tackled benchmarking projects focusing on customer satisfaction, employee training and development, and one-stop business registration.

Benchmarking with Units Similar to or Different from Your Own

Perhaps the most celebrated benchmarking tale is a well-known Xerox success story. Dissatisfied with the pace at which it filled orders, Xerox sought ideas to improve its operation and turned to a catalog-order company it regarded as one of the best in that aspect of business–L. L. Bean. In fact, L. L. Bean was three times as proficient

as Xerox in moving requested items from inventory to the customer. A fact-finding team from Xerox visited L. L. Bean's facility and found out why. The secret to the cataloger's success was an inventory system organized not simply by general categories but by frequency of sales. Under that system, the most frequently ordered items were also the ones most accessible. In addition, L. L. Bean's computer software helped organize incoming orders so packers could combine trips for items shelved near one another. Xerox adapted these ideas for its own operation with favorable results.

The Xerox-L. L. Bean case is an example of a category of benchmarking known as "co-operative benchmarking." Because it usually involves companies from different industries, co-operative benchmarking features a much more open exchange of information than typically may be found in instances of "competitive benchmarking," where competitors in the same industry share general information and perhaps even exchange facility tours, but withhold information considered to be "trade secrets."[8] Xerox was able to more freely acquire information from L. L. Bean, a company outside its own industry.

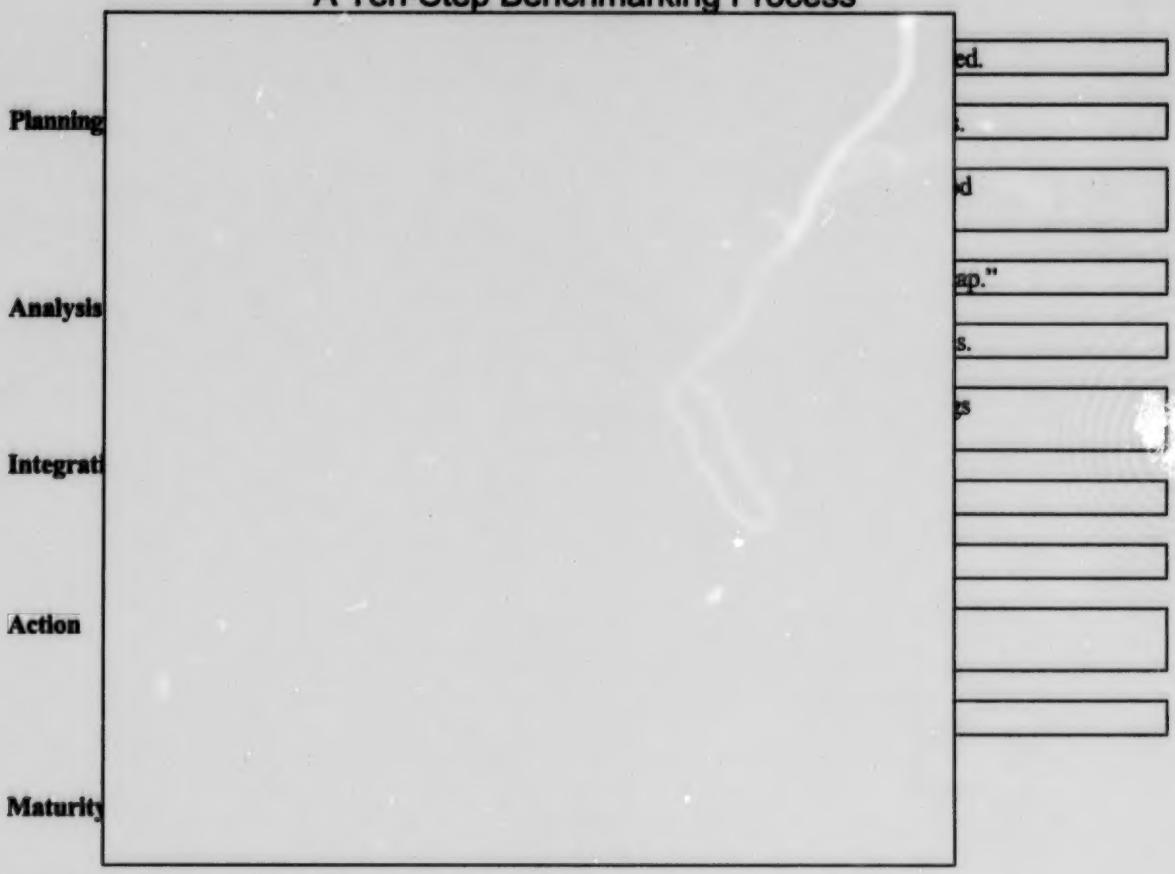
Other types of benchmarking include "collaborative benchmarking," which typically involves an exchange of data among a consortium of organizations, and "internal benchmarking," which applies the benchmarking process to different units within the same organization. Although still valuable, the information exchanged in collaborative benchmarking typically offers fewer details and less often focuses on "best-in-class" processes than does co-operative benchmarking, where gaining insights about the processes of the most outstanding performers is precisely the point. Serious benchmarkers engage in internal benchmarking from time to time for two reasons: First, adoption of the practices of top performing units within an organization can boost the performance of poorer performers in the same organization, and, second, internal benchmarking is an excellent way to build benchmarking skills and to develop the information you will need about your own operations as you embark on one form of external benchmarking or another.

Steps in Benchmarking

Camp described Xerox's groundbreaking procedure for benchmarking as a 10-step process moving sequentially through four phases–the planning phase, the analysis phase, the integration phase, and the action phase (*Figure 1*). Despite the prominence of Camp and his Xerox colleagues among pioneers in the benchmarking arena, this 10-step model has not been regarded as sacrosanct. Everyone, it seems, has a customized version of the benchmarking process. Even among models developed especially for public sector benchmarkers, there is a seven-step process,[9] a nine-step process,[10] and an eleven-step process.[11] Fortunately, most of the alternate models–public sector and private sector–have been strongly influenced by Camp's prescription and bear striking similarities to one another.

Figure 1

A Ten-Step Benchmarking Process

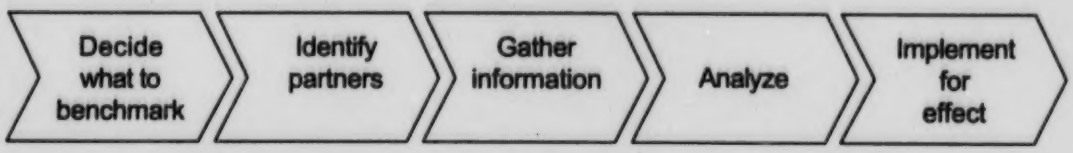


Source: Robert C. Camp. *Benchmarking: The Search for Industry Best Practices that Lead to Superior Performance*. Milwaukee, WI: Quality Press, 1989, p.17.

The simplest models of the benchmarking process–that is, those having the fewest elements–rarely eliminate steps. Instead, they usually cluster related steps together within a smaller number of elements or stages in the benchmarking process. Karlof and Ostblom, for example, propose a five-stage benchmarking process (*Figure 2*). An even simpler "meta-model" has been developed by the International Benchmarking Clearinghouse, consisting of only four steps: plan, collect, analyze, and improve.[12]

Figure 2

A Five-Stage Benchmarking Process



Source: Bengt Karlof and Svante Ostblam, *Benchmarking: A Signpost to Excellence in Quality and Productivity* (New York: John Wiley & Sons, 1993).

Although a solid foundation in benchmarking can be acquired by a thorough understanding of any of the process models, this overview is based on the following seven-step model (*Figure 3*).

Figure 3

Recommended Benchmarking Model

1. Decide what to benchmark
2. Study the processes in your own organization
3. Identify benchmarking partners
4. Gather information
5. Analyze the information
6. Implement for effect
7. Monitor results and take further action, as needed

Step One: Decide what to benchmark.

Benchmarking is neither simple nor inexpensive. Doing it properly usually requires long hours and conscientious effort from some of the organization's best and brightest employees. The resources required by a benchmarking project should not be squandered on the analysis of an insignificant or inconsequential aspect of the organization's operations. In deciding what to benchmark, a provincial or local government would be wise to consider:

- Where in its operations bottlenecks occur;
- Where frequent complaints arise;
- Where backlogs are most prevalent;
- Which functions contribute most to their favorable or unfavorable image;

- What qualities of performance are most valued by their customers or stakeholders;
- What will have the most impact on achieving strategic goals and objectives;
- Where the greatest opportunities for substantial gain are likely to reside; and
- Which functions consume the greatest portion of the organization's resources.

Benchmarking in these areas is likely to produce the greatest benefits.

It has been suggested that the best way to decide what to benchmark is to focus first on values, emphasizing in particular the desired qualities and characteristics of the organization's products and services.[13] With this approach, the proper question becomes, "What needs to be improved in our operation in order to obtain optimum value for our customers?" As one observer explains, "If that turns out to be an identifiable work process, we then ask what the expected outcome of the process should be versus what it is now. We start by evaluating the result and then work backward to learn the location of the process deficiency. If we cannot just fix it, then we might consider a project to benchmark the process."[14]

Consideration of these questions might lead you to identify, for example, the quality of staff work in some narrowly defined process as a major problem. If so, you might choose to benchmark error rates in that process, performance accuracy, or customer satisfaction ratings. If, instead, you think that the problem lies in responsiveness, you might choose to benchmark the normal cycle time for a key process, the average time required to handle field requests, or the volume of back orders. If your diagnosis leads you to believe you have an efficiency problem, you might choose to benchmark unit costs for a particular set of services or service units per employee hour in a given operation. The trick is to select a target that is important to management and customers but is not so broad as to be unwieldy. A narrow focus is the better choice.

Most beginning benchmarkers are tempted to take-on a big project with multiple dimensions, shrugging off the standard advice that encourages them to define the benchmarking focus narrowly and to concentrate on a single process or on some limited aspect of their operations. Instead, they often consider projects of grander scale–focusing, for example, on organizational communications across the board or on an entire department in a provincial or local government, because they mistakenly believe that a broader focus will yield greater value from the benchmarking project. Usually, the opposite is true; a broader focus yields a lesser value. The observation has been made that "Teams that set out to benchmark expansive subjects. . . might as well try to boil the ocean. Successful benchmarking projects usually start with well-focused project missions that target manageable topic areas. Project teams that cast their nets too broadly bog down."[15]

If you have chosen your benchmarking focus carefully and wisely, you will have selected an aspect of performance in which there is considerable difference between your organization's level of achievement and the level obtained by organizations that are outstanding or "best-in-class" on that dimension. This difference is known as the "performance gap." The object of benchmarking is to identify the reasons for the performance gap and to adapt best practices from top performers so those practices can be implemented in your organization to close the gap.

Early in the benchmarking process–certainly by the time a decision is made on the general focus of the benchmarking project, if not earlier–thought should be given to assembling a benchmarking team, typically consisting of four to six employees. The team should include representatives from the activity being examined, with at least one representative working at the operational level in that activity. Ideally, each team member should have basic analytical skills or aptitudes and good interpersonal communication skills.

Team training on basic benchmarking skills, including roles and responsibilities of team members, data collection methods, and protocols for contacting benchmarking partners, can be critical in getting the effort off to a good start. Most private sector benchmarkers have been found to offer two basic benchmarking courses: a one- to two-day basic skills course and a two- to four-hour management briefing session.[16]

By assembling the team at an early stage in the process, team members from the department being examined can participate in decisions regarding key dimensions of performance on which to focus. For example, a benchmarking team in provincial government that is studying the department of labor might be influenced by a team member who is a departmental employee to focus not simply on job placement rates, but on placement rates stratified to account for different job categories and client skills. Team members from an emergency communications operation might influence a decision to incorporate dispatch time and error rates into an examination of their unit. Professional insights–especially those contributed by unit colleagues–are likely to enhance co-operation, as well as acceptance of the project and its results.

Some veteran benchmarkers prefer to assemble two teams in sequence, often with some repeat members. The first team examines various processes among the organization's activities that are considered potential candidates for benchmarking projects. This review includes consideration of the need for process improvement in a given instance and its probable impact; the availability of other, more direct routes to the design of the desired process improvement; and the potential project's acceptability to management. If improvement of a given process is deemed to be needed and of significant importance, if benchmarking is considered to be the best option for designing that improvement, and if management support is likely, the first team can proceed to identify clearly the focus of the proposed benchmarking project and to seek management's authorization. The second team–the actual benchmarking team–will be assembled only after the project's focus has been
identified in order to ensure the selection of team members involved in and well-acquainted with the process being studied.

Step Two: Study the processes in your own organization.

It is important that your benchmarking team become as familiar as possible with all of the details of the operation being examined as it functions in your own organization before requesting such information or even seeking participation commitments from your benchmarking partners.

A thorough understanding of your own operations is important for several reasons. First, it is difficult to effectively apply lessons learned from others if you have not analyzed current practices at home. Second, unless you have command of relevant internal information when you initiate conversations with potential benchmarking partners, you risk not only embarrassment as you attempt to respond to basic questions but perhaps even the withdrawal of benchmarking partners from participation. If you can describe your organization's processes and performance measures–and perhaps even fax a copy of your flow chart, if requested–your own commitment to the benchmarking effort is demonstrated and your benchmarking partners will be reassured that they are contributing to a serious benchmarking project from which they, too, may benefit.

In addition, self-assessments can:

- Identify obvious targets for improvement, including practices or processes that may be improved without formal benchmarking;
- Demonstrate to partners your commitment to improvement;
- Open up channels of communication between programs or departments, enabling them to learn from each other and share solutions to common problems;
- Generate momentum and an acceptance of the need for change; and
- Contribute to an understanding of unique organizational features that cannot be changed.[17]

Process mapping or flow charting techniques, which are described more fully under Step Five, can be used to help you define and understand the process under study.

Step Three: Identify benchmarking partners.

Potential benchmarking partners with outstanding reputations *in the process you have chosen to benchmark* and,

more importantly, outstanding performance records in those activities, may come from the public sector or the private sector. In some cases, dealing with other public sector organizations may be the simpler option. Other public sector units operate in a similar environment, speak approximately the same language, and, without the private sector concern for "trade secrets," are apt to be free with whatever process information they possess. On the other hand, the level of performance measurement and process documentation tends to be more advanced in the private sector, which could make relevant data more available and analysis more reliable when dealing with corporate partners. Furthermore, just as corporate benchmarkers are most likely to achieve breakthrough advances by studying processes in organizations outside their own "industry," public sector units may discover substantial gains by venturing beyond comparisons solely with governmental counterparts.

Where can you get leads on potential benchmarking partners? Several sources can help. Professional associations, renowned practitioners, consultants, and university faculty often can cite organizations with solid reputations in a given field. Articles in the professional and popular literature may provide additional clues, as can various lists of organizations that have won relevant awards.

Compile as large an initial list of potential benchmarking partners as you can. Then, learn as much as possible about each from library materials and other secondary sources so that you can begin winnowing the list. The objective is to have a list of solid organizations that are likely to score very well on the benchmarks selected in the first stage of the process.

As you think about potential partners, it is important to be clear about what you really want to accomplish through the benchmarking process. Will you be satisfied with basic improvements in current practices, or do you truly want to be a world leader?

Conventional wisdom in benchmarking circles encourages the identification of best-in-class or "world-class" performers as benchmarking partners. But best-in-world comparisons generally require a great deal of time and resources. Organizations are best served by selecting models appropriate to their status and aims. Those having a long way to go before achieving excellence may be better served by using as their models solid performers that might not yet possess world-class status but that offer ideas that may fit their own organization better, given current circumstances. The observation has been made that "fledgling quality organizations that try to immediately mimic best-in-world performance systems–without first putting in place the requisite management foundations to support such systems–are a bit like yapping dogs that chase excitedly after passing cars: Should they be so lucky to catch them at an intersection, they are unprepared to do anything more than bark."[18]

Eventually–when your team is trained and ready to proceed, when project plans are well developed, and when necessary information about your own operations has been carefully compiled–you may begin contacting potential benchmarking partners, describing your benchmarking plans, securing a few details about their practices and results, inquiring about the availability of performance data, and, if all signs are favorable, requesting their agreement to participate. Typically, a combination of telephone calls and written communications describing in detail the benchmarking project's purpose, its focus, the expected timetable, the obligations of benchmarking partners, and what those partners may expect in return are incorporated into the process of securing partners.

The Management Accountants of Canada in their publication, *Implementing Benchmarking*, suggest the following general guidelines for data gathering:

1.Questionnaire: A questionnaire is the foundation for any good benchmarking study and provides a common communication link among the benchmarking participants. Prepared before initial contact, it implies that the team has a good understanding of their own processes, and is verified by those who do the actual work.

2. Surveys: In a mail or telephone survey, the appropriate target population is asked to complete the questionnaire, backed with incentive for the target audience to respond.

3. Personal Visit and Interview: The initial contact should be made by the benchmarking team leader or by senior management of a government ministry or business, especially where sensitive data is to be considered. The data analysis methodology should be carefully considered to ensure that the data is in a format conducive to analysis. A three-member team is considered ideal for a visit: one to ask the question, another to record it, and the third to think of the next question.

4. Legal/Ethical Considerations: Every benchmarking team ahould be aware of the legal and ethical considerations in data-gathering. Companies should have policies regarding information sharing, including practices to be observed, such as: no form of misrepresentation, no enticement to others for illegal divulgence of information, and no seeking of data on prroprietary products or processes.[19]

Step Four: Gather Information.

Benchmarking data can be collected through publications and archival information, telephone interviews, site visits, surveys and/or questionnaires. The most comprehensive request for information from benchmarking partners is typically in the form of a questionnaire. The questions that you include in the questionnaire should be selected carefully in order to meet your needs without overburdening your partners.

- If information is truly important for the study, ask for it in the form that is simplest to collect or most likely to be available already.
- If the information is only of marginal importance, consider omitting it from your questionnaire.
- Do not ask for anything that you would not reveal about your own organization.
- Test the questionnaire for clarity.

In developing the questionnaire, it is important to define terminology and/or methods for performing any calculations that may be required. If this is not done, it may prove difficult to make valid performance and/or cost comparisons down the road.

Despite efforts to limit the scope and difficulty of their requests, benchmarkers typically ask a great deal of their partners. Steps taken to limit that imposition are appropriate. It is also important that benchmarkers adhere to proper protocol as they proceed through the project.

Some elements of *benchmarking protocol* will seem a bit foreign to public sector officials, for they are designed to protect trade secrets and other proprietary information that private sector partners may wish to keep confidential. Other elements of protocol are simply matters of common sense and common courtesy.

Inform your partner about the purpose of your benchmarking project and the intended use of the information. If your partner wishes to keep confidential some of the information being shared with you, ask that they so-designate that material. If they decline to share sensitive information, respect their right to do so. Adhere to any agreements you make regarding the release of information.

Be prepared and willing to share information about your organization with your partners. If you visit their site, offer to host a reciprocal visit. Be a gracious visitor–introduce any colleagues accompanying you and explain their involvement; be punctual; use your host's time wisely, perhaps providing a list of key questions and discussion topics in advance; and express your appreciation to your benchmarking partners. And remember, your interview is not completed until the thank-you note is written.

Step Five: Analyze the Information.

Collecting data is only part of the benchmarking process. It has been suggested that at least 60 percent of the time devoted to a benchmarking project should be spent analyzing data, deriving insights, communicating findings, and convincing the audience.

As you compile performance information, expect to find a performance gap between your own organization's performance marks and those of your benchmarking partners. After all, you selected this activity in hopes of finding avenues for improvement, and you chose your benchmarking partners because they were presumed to be outstanding in this function. The key now is to analyze the extent of the performance gap, estimate the benefits that would accrue from narrowing or closing it, and analyze differences in processes in order to find explanations for performance superiority.

The task of analyzing key processes in the operations of benchmarking partners can be made more manageable by the application of well-developed techniques designed to help you spot not only the big differences among processes in various operations but also the subtleties. Process flow charting, for example, is a technique that is particularly well suited for the type of analysis required in many benchmarking projects. In its most rudimentary form, very little specialized knowledge is required for flow charting, other than familiarity with a set of five symbols used to categorize the elements of a given process (*Figure 4*). An analyst carefully observes the process or interviews someone knowledgeable about its details, and enters each step on a special form called a "process chart"–using the appropriate symbol to designate the category of each step (*Figure 5*).

Figure 4

Process Flow Chart Symbols

Symbol	Name	Definition
○	**Operation**	An item is acted upon, changed, or processed.
⇨	**Transportation**	An object is moved from one place to another.
□	**Inspection**	An object is examined to be sure quantity and/or quality is satisfactory.
D	**Delay**	The process is interrupted as the item awaits the next step.
▽	**Storage**	The item is put away for an extended length of time.

The sample flow chart displayed in *Figure 6* shows the steps involved in one government's process for requisitioning small tools. If that process was selected as the focus of a benchmarking project, similar flow charts would be developed for each of the benchmarking partners. Comparison of the flow charts would aid in the detection of key process differences that contribute to the success of the organizations that are achieving the best results. It would also help the benchmarking team focus on aspects of the operation in their own organization that could benefit most from adaptation.

Data matrices can also be used as a vehicle for data comparison. Arraying data in a matrix can help you identify common practices, spot needs for additional information, and highlight large variances that may need to be checked for explanations.

Once key process differences have been detected, the task shifts to designing adaptations that can be imported to your own organization as a means of narrowing the performance gap. This involves translating your analysis into specific, actionable recommendations.

Figure 5

Process Flowchart

PROCESS CHART

Present Method ☐
Proposed Method ☐
SUBJECT CHARTED _____ DATE _____
_____ CHART BY _____
_____ CHART NO. _____
DEPARTMENT _____ SHEET NO. _ OF _

DIST. IN FEET	TIME IN MINS.	CHART SYMBOLS	PROCESS DESCRIPTION
		○ ⇨ □ D ▽	
		○ ⇨ □ D ▽	
		○ ⇨ □ D ▽	
		○ ⇨ □ D ▽	
		○ ⇨ □ D ▽	
		○ ⇨ □ D ▽	
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		○ ⇨ □ D ▽	
		○ ⇨ □ D ▽	
		○ ⇨ □ D ▽	
		○ ⇨ □ D ▽	
			Total

Source: Adapted from Patricia Haynes, "Industrial Engineering Techniques," in *Productivity Improvement Handbook for State and Local Government*, ed. George J. Washnis (New York: John Wiley & Sons, 1980) p. 211.

Figure 6

Process Flowchart–Present Method

PROCESS CHART

Present Method ☒
Proposed Method ☐
SUBJECT CHARTED Requisition for small tools — DATE _____
Chart begins at supervisor's desk and ends at typist's desk in purchasing department. — CHART BY J.C.H.
DEPARTMENT _____ — CHART NO. R 136
SHEET NO. 1 OF 1

DIST. IN FEET	TIME IN MINS.	CHART SYMBOLS	PROCESS DESCRIPTION
		○ ⇨ □ D ▽	Requisition written by supervisor (one copy)
		● ⇨ □ D ▽	On supervisor's desk (awaiting messenger)
65		○ ⇨ □ D ▽	By messenger to superintendent's secretary
		○ ⇨ □ D ▽	On secretary's desk (awaiting typing)
		○ ⇨ □ D ▽	Requisition typed (original requisition copied)
15		○ ⇨ □ D ▽	By secretary to superintendent
		○ ⇨ □ D ▽	On superintendent's desk (awaiting approval)
		○ ⇨ □ D ▽	Examined and approved by superintendent
		○ ⇨ □ D ▽	On superintendent's desk (awaiting messenger)
20		○ ⇨ □ D ▽	To purchasing department
		○ ⇨ □ D ▽	On purchasing agent's desk (awaiting approval)
		○ ⇨ □ D ▽	Examined and approved
		○ ⇨ □ D ▽	On purchasing agent's desk (awaiting messenger)
5		○ ⇨ □ D ▽	To typist's desk
		○ ⇨ □ D ▽	On typist's desk (awaiting typing of purchase order)
		○ ⇨ □ D ▽	Purchase order typed
		○ ⇨ □ D ▽	On typist's desk (awaiting transfer to main office)
		○ ⇨ □ D ▽	
		○ ⇨ □ D ▽	
		○ ⇨ □ D ▽	
		○ ⇨ □ D ▽	
		○ ⇨ □ D ▽	
		○ ⇨ □ D ▽	
		○ ⇨ □ D ▽	
105		3 4 2 8	Total

Source: Adapted from Patricia Haynes, "Industrial Engineering Techniques," in *Productivity Improvement Handbook for State and Local Government*, ed. George J. Washnis (New York: John Wiley & Sons, 1980) p. 211.

As you develop your recommendations, avoid the trap of blindly substituting another organization's practices in place of your own. What works in one organization may not be appropriate in another, due to differing organizational structures, work cultures, financial situations, or other factors.

It may be helpful to consider the following questions as you assess alternative recommendations:

- Which changes could be made most economically?
- Which changes are likely to produce the most dramatic results?
- Which changes would be least disruptive to the organization?
- Which changes are likely to produce the fastest results?
- Which changes are likely to encounter the least resistance?
- Which changes pose the fewest limitations in terms of legislation, technology, turf, and finances?

Step Six: Implement for effect.

The sixth stage of the benchmarking process calls for implementation. At this stage, it is important to write an action plan that identifies specific steps, responsibilities, and timing for carrying out the recommendations of your benchmarking team.

Transporting good ideas from "best-in-class" organizations to your own is rarely a matter of total *adoption*; more often, it involves *adaptation*–using the best ideas in a form and fashion most suitable in your circumstance and setting. In some cases, the wisest approach may call for implementation in phases. In others, additional training of personnel may be required, new equipment may be necessary, or "customer" orientation may be appropriate to smooth the transition. These considerations and others must be built into the implementation plan to give the project maximum opportunity for success.

The participation of operating personnel from the activity being analyzed has been important at every stage of the process, but nowhere will the decision to include them on the benchmarking team pay more handsome dividends than at the implementation stage. If respected operating personnel have helped shape the focus of inquiry, have examined the data from benchmark partners, have asked their questions and received answers that satisfy them, have perhaps seen different processes operating successfully firsthand, and have participated in designing process adaptations that they are convinced will work locally, their optimism and influence on co-workers are likely to be of immeasurable value.

Step Seven: Monitor results and take further action, as needed.

The prospects for successful implementation will be enhanced if the process and its results are carefully monitored and adjustments made, where necessary. Monitoring, therefore, should be built into the benchmarking plan.

As you monitor the benchmarking plan, be sure to measure your progress against expectations. Are improvements proceeding on schedule? (If not, what are the obstacles? Do you need to amend your implementation plan?) Has your performance improved as expected? (If not, do you need to consider alternative means of implementing your strategies? Or, do you need to consider new strategies?)

Keys to Success

Unfortunately, there is no way to guarantee the success of a benchmarking project. Several things can be done, however, to increase the likelihood of that result:

- *Understand the benchmarking process and adhere to its core elements.* Each step in the benchmarking process has a purpose. Following those steps meticulously can consume a considerable amount of time, and you may be tempted to cut a few corners. Be careful. Sometimes an alluring shortcut may lead you down the wrong path and short-circuit the project. For instance, conferring with only one presumed expert rather than several on the choice of benchmarking partners may lead to disappointing results. Skipping over the step that calls for thorough analysis of your own operations and jumping directly to site visits may leave you ill-prepared to exchange information or ask the right questions of your host, thereby rendering the visit as nothing more than what expert benchmarkers derisively call "industrial tourism."

- *Involve the right people early.* Involving at an early stage operational employees from the activity being examined will prove beneficial throughout the project. The research design and analysis will be strengthened by their insights. Implementation success will be enhanced by their credibility and commitment.

The involvement of upper level officials–though in a different manner–is important as well. When a municipal benchmarking team in Salt Lake City, Utah had narrowed its choice of targets to three activities, it sought the opinion of the mayor and city council prior to making its final selection. By including the governing body in the project selection, the benchmarking team enhanced the prospects of resource commitments for the project, interest in its findings, and support for implementation.

- *Get a "champion."* A senior official who is willing to speak up for the benchmarking project, marshal needed resources, maintain interest in the benchmarking team's progress, and urge implementation of improvement strategies can enhance the vitality and value of the project. It is not necessary that such a champion be a member of the benchmarking team.

- *Commit adequate staff resources to the project.* Many organizations hire consultants to help them with their benchmarking projects. Such a decision often makes sense, for unless an organization has experienced benchmarkers on hand, the process can seem a bit daunting. A knowledgeable consultant can be helpful in identifying benchmarking partners and deciding on and collecting relevant information. Unfortunately, however, many consultants who claim benchmarking experience have engaged only in corporate projects and may be unfamiliar with the special concerns of public sector agencies. Furthermore, some consulting arrangements preserve too few of the benchmarking duties and decisions for the staff of the hiring organization. A strategy that virtually turns the project over to a consultant not only denies the project important insights that knowledgeable staff members could contribute, but it also deprives the resident staff of the rich details of interorganizational comparisons that can be realized most fully by actual and direct involvement in the project. Whether or not you hire a consultant to help you, your organization is more likely to be happy with the result if you plan to *do* a benchmarking project rather than to *buy* one.

Prospects for Benchmarking in the Public Sector

Ask someone about benchmarking in the public sector and they might mention the celebrated and award-winning program called "Oregon Benchmarks" or some other, equally worthwhile project of a similar nature conducted in another jurisdiction. Although few compare in scope and ambitiousness with the state of Oregon's model, such projects typically document prevailing conditions on important social indicators or measure the performance of government services and set targets–sometimes called benchmarks–toward which future efforts should be directed.

Oregon's approach relies on performance measures and goal setting. In reality, it is more akin to strategic planning than to corporate-style benchmarking. The absence of external comparisons with best-in-class organizations separates Oregon's approach from examples that follow more closely the steps included in corporate-style benchmarking[20], as does the more limited attention given by Oregon to analysis of processes among partners and identification of "best practices." The state of Minnesota's *Minnesota Milestones*, the Southern Regional

Educational Board's *Goals for Education: Challenge 2000*, and several other outstanding, goal-oriented planning efforts similarly have a few elements in common with benchmarking, but very few. This is not to suggest that the targets established for Oregon are not benchmarks–indeed, they are. They offer a point of reference against which progress may be tracked and, therefore, qualify as benchmarks–although relatively few are based on authoritative standards or external comparisons that verify their reasonableness.

The identification and use of benchmarks is a laudable step for planning, evaluation, and results-oriented management. It is an important step toward accountability. In its simplest form, however, the *use* of benchmarks–authoritative professional standards or norms from other respected jurisdictions–as points of reference for assessing conditions or the adequacy of services is not the same as *benchmarking*. In some cases, broad based comparisons with benchmarks may be made with relative ease, but *true benchmarking projects trade breadth for depth*. They are tightly focused on a key process and provide depth of analysis that is intended to produce not only an assessment of the adequacy of current operations but, more importantly, a set of recommendations for process improvement.

In Canada, benchmarking efforts are evolving as governments increase their accountability to the people they serve. A *results oriented* focus with performance measures is wide-spread in the planning of many governments and businesses. The establishment of measures, indicators, and standards are currently a focus of Alberta Government ministries and related services under each ministry.

Currently in the Alberta Government, activity toward establishing best practices is based on the development of standards, measures and indicators. Benchmarking will evolve with comparison to "best in class" for similar tasks and responsibilities. One example of ongoing work in benchmarking is Alberta Health's *Best Practices*, June 1997, which illustrates comparison of specific procedures against successful applications. In addition, the Calgary Regional Health Authority is currently using the Maryland Quality Indicators 1993 project to benchmark hospital quality care with indicators such as length of stay and re-admission rates.[21]

Comparative studies, such as are carried out in many government and business services and programs may yield useful results, but may not be benchmarking. To date the *best in class* is yet to be established in most services and public jurisdictions in Canada. In order to assure comparisons are valid, definitions are needed for each measure. Comparison to operational or financial practices of a service leading to best outcomes can then be measured.

American examples show that the US Air Force Logistics Command, whose rapid and reliable parts delivery during the Persian Gulf War was a major success story, credits its remarkable efficiency to the benchmarking it did with Federal Express.[22] Similarly, the U. S. Internal Revenue Service was a pioneer in public sector benchmarking, targeting American Express for billing and Motorola for accounting practices.[23]

Through the years, many American state and local governments have adopted service delivery approaches once they were demonstrated elsewhere to be "best practices." Rarely were they called benchmarking projects, nor did they often include all of the prescribed steps, but many of the hallmarks of benchmarking were present. A prime example has been the widespread adoption of police services practices known generally as "community-oriented policing." Initiated in Philadelphia, this approach produced results so attractive that it demanded and received emulation by others.[24] It is noted that Edmonton and many other Canadian jurisdictions have adopted this practice successfully.

In keeping with a benchmarking philosophy that seeks "best practices" wherever they may be found, some US city governments have adopted practices found in the private sector. For example, in the late 1970s, the city of Oak Ridge, Tennessee, looked to a private sector model of fire service efficiency, a Scottsdale, Arizona-based company called Rural/Metro Corporation, for ways to cut costs without reducing service quality.[25] By making a few adaptations, Oak Ridge was able to make Rural-Metro's firefighter deployment system function effectively in a totally public sector environment at substantial savings compared to previous costs.

In more recent instances, the city of Glendale, Arizona, benchmarked its plan review process with municipal partners Bellevue, Washington; Chula Vista, California; and Lakewood, Colorado, which were identified as suitable partners following database and journal searches, and consultation with governmental and professional organizations. The city of Arlington, Texas, has benchmarked several components of its parks and recreation operation, often with local government partners but in some cases with corporate partners such as American Airlines and Marriott Corporation.[26] Using a collaborative approach, the cities of Reno, Nevada, and Salt Lake City, Utah, have joined forces in a joint benchmarking project designed to improve their customer referral processes.[27]

Interest in benchmarking, ranging from the use of benchmarks in strategic planning and outcomes-based budgeting to corporate-style benchmarking projects, is increasing in the public sector. This growing interest prompted *Governing* magazine to label the phenomenon "the benchmarking craze." As noted in that issue, enthusiasm for benchmarking is not restricted by ideology. "Conservatives see it as a way to bring accountability to government; liberals see it as a way to illustrate that government *is* worth paying for–and may even be worth paying *more* for."[28]

The prospects for rapid multiplication of benchmarking projects in the public sector are good. The pressures to improve public service efficiency and effectiveness are great and are likely to grow even greater in the years ahead. The benchmarking consultants who assisted Reno and Salt Lake City in their joint project note correctly that "invention is not the only way to express ingenuity. Building on or improving on the invention of another is also ingenious–as well as time-saving and cost-efficient."[29]

And that is the rationale that underlies benchmarking.

Suggested Readings for More Information about Benchmarking Best Practices

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Module 3

PERFORMANCE MEASUREMENT

Alberta
GOVERNMENT OF ALBERTA

Module 3

PERFORMANCE MEASUREMENT

Overview for Workshop Participants

Alberta
GOVERNMENT OF ALBERTA

Module 3: Performance Measurement

An Overview for Workshop Participants

Performance measures are valuable because they tell us how we are doing.

If you attended Sunday School as a child, you probably had a teacher who posted an attendance chart on the wall and awarded you a gold star for each day you were present. That was a performance measure. You probably were proud if you had more gold stars than anyone else. Report cards and merit badges were other forms of performance measurement as you were growing up. If you tried out for the track team, the coach probably used a stopwatch to record yet another performance measure in your young life.

Performance measures have always been part of our lives–sometimes subtly, sometimes not so subtly. They can tell us where we are strong and where we need improvement. Performance measures are useful to us individually, and they are useful to us in organizations. They are important in the private sector, as companies compete for customers and market share, and they are important in the public sector, too. The Washington, D.C. based Urban Institute's Harry Hatry, an astute observer of human nature and public sector organizations, once noted:

> "Unless you are keeping score, it is difficult to know whether you are winning or losing. This applies to ball games, card games, and no less to government productivity. . . Productivity measurements permit governments to identify problem areas and, as corrective actions are taken, to detect the extent to which improvements have occurred."[1]

Private companies that hope to survive in the competitive marketplace rely on frequent readings that tell them whether they are "winning or losing." Corporations have the bottom line of profit or loss, but they also measure many other aspects of their performance. In fact, Tom Peters and Bob Waterman, the authors of *In Search of Excellence*, characterized top companies as "measurement-happy and performance-oriented."[2] The best companies refuse to fly in the dark.

Advocates of performance measurement in the public sector have long pressed for the development of good indicators and the use of those indicators in management and policy decisions. Increasingly, respected professional associations, including the Canadian Institute of Chartered Accountants and the American Society for Public Administration, are promoting the practice.

In Alberta, provincial government business plans reflect performance measurement, and while Alberta is in the early years of this process, a good structure has been developed. Other jurisdictions and institutions in Canada have embraced the performance management concepts, including performance measurement as an integral part of the overall strategic management cycle. Full accountability also requires information about the products or services that a government's resources support. Since 1994, the Government of Alberta, in communicating its performance, has published an Annual Report "Measuring Up" to reflect its performance against targets set out in its' business plan.

Why Measure Performance?

The value of performance measurement to public sector organizations lies in its usefulness as an information source for management and policy decisions and in its significance as a tool of accountability. Performance measurement can improve:

- **Accountability.** Well designed performance measures document progress towards achievement of goals and objectives thereby facilitating governments or other organizations to fulfill their accountability obligations to their citizens, clients, elected officials, etc. In Alberta, it was primarily the need for accountability [as in the Government Accountability Act] that initially drove the initiative to implement performance measurement.

- **Strategic Planning.** Performance measurement supports strategic planning and goal setting by gauging progress towards established goals. Many observers feel that without such a mechanism to "hold government's feet to the fire," it is unlikely that a mere plan will lead to meaningful change.

- **Program Management and Service Quality.** Once measures have been agreed upon, progressive organizations may choose to give managers greater flexibility in determining *how* to achieve the desired results. Expanded operational authority enables them to respond more rapidly to changing conditions and needs while still ensuring accountability. Not only can performance measures identify problem areas that need attention, but they can also bring to light approaches that are working particularly well and which might warrant replication in other settings.

- **Budgeting and Resource Allocation.** The use of performance measurement in the budget process links financial costs to program results. This leaves policymakers better prepared to assign priorities, expand or reduce programs, and more accurately assess the costs of achieving desired results.

- **Contract Monitoring.** As governments increasingly contract out the provision of services to private vendors or other governments or nonprofit agencies, performance measurement becomes a critical tool in controlling risks and ensuring service quality. In short, contract monitors need performance measures to know whether or not contractors are fulfilling their performance obligations.

- **Personnel Management.** Performance measures can increase employee motivation and provide an objective means of assessing the achievement of group and/or individual targets. In fact, the establishment of clear departmental expectations and goals alone can go a long way towards increasing the motivation of managers and employees, many of whom otherwise see little direct connection between their efforts and any long-term goals.

- **Interdepartmental Collaboration.** By providing a clear direction for efforts in a particular functional area, performance measurement can promote interdepartmental communication and collaboration.

- **Communication with the Public.** Public reporting of performance measures can enhance citizens' understanding and support of public programs. Moreover, a government that reports its own performance to citizens, rather than totally relinquishing that task to the media, has far more control over the manner in which information is disclosed and greater opportunity to describe its response to particular problems.[3]

The development of performance measures is a hollow exercise unless it is accompanied by a commitment to put the resulting measures to use. Only if performance measures are integral components of a government's system of accountability, its policy development process, and its managerial decision making apparatus are they likely to generate the degree of commitment and diligence necessary to achieve significant and lasting improvements.

Types of Performance Measures

Most of you have probably measured and reported on some aspect of your organization's performance, whether as part of the annual budget process, an audit, or a special study. If you are like most provincial and local governments, you probably looked at how much you spent, how many staff members you had, and how many clients you served. While this type of information can be important in tracking service demand and workload trends over time, it tells us little about program results and quality. Does it matter, for example, that we offer a full slate of job training classes to a packed audience if the graduates are not landing jobs?

Although the section below discusses several types of measures which can contribute to our understanding of program performance, the measures which focus on program outcomes, efficiency, and productivity have the greatest value for guiding management and policymaking decisions. They tell us not only whether we're achieving desired results–but whether we're doing so at a reasonable cost.

Performance measures have been categorized in a variety of ways over the years. The following four categories encompass most measures of performance:

- Output Measures;
- Efficiency Measures;
- Outcome Measures; and
- Productivity Measures.

Some lists of performance measurement categories include "input measures," which report resources consumed or used by a program–e.g., dollars spent, number of employees, employee hours. Input measures have also been used to express the level of need or demand for a particular service, such as the number of students enrolled in a work training program. Although such information can be useful, it reflects *service efforts* rather than *performance*. For more information on input measures, see the series of publications by the US Governmental Accounting Standards Board on "Service Efforts and Accomplishments Reporting."

Output measures identify how much work was performed or how many units of service were provided. Typical output measures include the number of applications processed, the number of emergency units dispatched, the number of arrests made, or the tons of garbage collected. Comparison of current output with output from previous periods can reveal variations or stability in work activity.

Output Measures

- Number of counselling sessions provided
- Number of road kilometres paved
- Number of vaccinations given
- Number of building inspections made

Output measures tell *how much* was done, but do not reveal *how efficiently* or *how well* it was done. Outcome, efficiency, and productivity measures provide more valuable decision making information.

Efficiency measures relate the amount of work performed to the amount of resources–typically in dollars or labour-hours–consumed in doing it. Often expressed as unit costs such as "costs per application processed" or "cost per lane-mile paved," efficiency measures can also take the form of "units produced per $1,000," "units produced per labour-hour," or "labour-hours per unit." Still other forms of efficiency measures report labour or equipment production time as a percentage of full utilization or compare actual production rates to an efficiency standard.

While these types of measures are important in gauging whether or not governments are using their resources wisely, governments should be careful not to focus on efficiency to the exclusion of effectiveness. As David Osborne and Ted Gaebler note in their bestseller, *Reinventing Government*, "there is nothing so foolish as to do more efficiently something that should no longer be done."

Efficiency Measures

- Personnel hours per crime solved
- Operating cost per bus system kilometre

Outcome measures focus on program results and service quality, assessing the impact of agency actions on customers, whether individual clients or whole communities.

Many see outcome measures as the ultimate type of measure as they alone address the change in the lives of clients or customers as a result of one or more programs. In Alberta, as with many other governments and agencies, the emphasis is on developing measures that report on outcomes.

Outcome Measures

- Reduction in the incidence of fire-related deaths
- Percentage of students increasing earning capacity following graduation from adult literacy program
- Percentage of citizens rating service as good or excellent

Because some program results may take several years to accomplish, many governments choose to measure both "intermediate" and "final" outcomes. For example, while working towards a long-term or final outcome of increasing exports, intermediate outcomes could also be measured along the way.

Intermediate Outcomes

- Number of firms deciding to export
- Number of firms making foreign market contact

Final Outcomes

- Number of firms adding new export-related jobs
- Number of firms delivering a product or service to a foreign market

Productivity measures include elements of efficiency and outcomes in a single indicator. For example, while the unit cost of all repairs is an efficiency measure, the "unit cost of *satisfactory* repairs" is a productivity measure.

Productivity Measures

- Cost per employment vacancy filled successfully (i.e., successfully completing probation)
- Cost per mental health patient rehabilitated and released

Productivity measures are relatively rare in the public sector because they are often difficult to formulate and interpret. Although governments that devise and implement good sets of understandable productivity measures deserve to move to the head of the class, it may be advisable–and much more expedient–to focus first on outcome and efficiency measures.

Who Should be Involved in Developing Measures?

"Ownership" is critical in sustaining any type of reform. A collaborative approach to the development of performance measures is most likely to result in measures that not only are accepted, but are also politically and technically feasible.

Whose perspectives should be considered?

- Managers and staff
- Program clients/customers
- Elected officials
- Citizens and community representatives
- Funding organizations, if applicable
- Information technology specialists
- Your auditor
- Other "stakeholders" who are affected by, or otherwise have a stake in, the organization's efforts

Each of these groups can bring a different–and valuable–perspective to the table. It is important to consider their needs and expectations and to identify what they most want to know about the program in question.

Deciding What to Measure

Performance measurement should not be undertaken as a general data-gathering technique. Measurement systems that produce too much data can overwhelm users, making it difficult for decision makers to distinguish between the "important" and the "unimportant." To help ensure that performance measurement is not reduced to a data or paper-generating exercise, you need to be selective in terms of what performance information is provided to whom. As will be dealt with further in Module 4, different levels of performance information will be of interest to those in different roles. While, for example, program staff and managers will need more detailed and more frequent information, politicians will be most interested in a select amount of outcome information delivered at the appropriate time in the planning cycle. Your performance measurement system needs to produce the right information for the right audiences at the right time. Involving elected officials, managers, clients, and other stakeholders in the development of measures can help you define their specific information needs, think about how they will use performance information, and focus your selection and reporting of measures to those appropriate for each audience.

How many measures are too many? There is no magic number. What is important is that you strive for a balanced set of meaningful measures that give an accurate and complete picture of the program or agency in question. This includes striking a balance between outcomes and efficiency, qualitative and quantitative information, and short-term and long-term goals.

The set of measures shown in *Figure 1*, for example, includes a variety of different measures related to the performance of police departments.

Figure 1

Set of Performance Measures for Police Departments

Inputs:	Budget expenditures
	Equipment, facilities, vehicles
	Number of personnel and total hours expended
Outputs:	Hours of patrol
	Number of responses to calls for service
	Number of crimes investigated
	Number of arrests
	Number of persons participating in crime-prevention activities
Outcomes:	Deaths and bodily injury resulting from crime
	Value of property lost due to crime
	Crimes committed per 100,000 population
	Percentage of crimes cleared
	Response time
	Citizen satisfaction
Efficiency:	Cost per case assigned
	Cost per crime cleared
	Personnel hours per crime cleared

Source: Reprinted with permission from Harry Hatry, James R. Fountain, Jr., Jonathan M. Sullivan, and Lorraine Kremer, eds., *Service Efforts and Accomplishments Reporting: Its Time Has Come* (Norwalk, CT: Governmental Accounting Standards Board, 1990).

Characteristics of a Good Set of Performance Measures

A review of the major writing in this topic suggests good sets of performance measures include those that are:[4]

- **Meaningful.** The measures are directly related to the organization's mission and goals and provide information that is valuable to both policy and program decision makers.
- **Comprehensive.** The measures capture the most important aspects of an agency's performance.
- **Valid and reliable.** The indicators measure what they purport to measure and they do so consistently, exhibiting little variation due to subjectivity.
- **Understandable.** The measures can be easily understood by policymakers, practitioners, citizens, and other stakeholders.
- **Timely.** The measures can be compiled and distributed promptly enough to be of value to operating managers or policymakers.
- **Resistant to undesired behaviour.** The development of a performance measure raises the profile of whatever is being measured. A higher profile sometimes brings unintended consequences or even strategies designed to "beat the system"–for instance, a focus on more highly educated clients if training programs are measured solely on job placement rates, or overzealous traffic ticket-writing if the police department is measured by that activity alone. The best sets of performance measures have little vulnerability to such actions because they have been devised carefully and also because they typically include multiple measures that address performance from several dimensions and thereby hold potentially perverse behaviour in check.

- **Nonredundant.** The best sets of performance measures limit information overload by avoiding the use of any two measures that focus on virtually the same aspect of performance. Each measure should contribute something distinctive.
- **Sensitive to data collection costs.** Although most dimensions of government performance can be measured either directly or through proxies, data collection expenses for some indicators can occasionally reach levels that exceed their value. Good sets of performance measures include the best choices from among *practical* measurement options.
- **Focused on sphere of influence.** Good sets of performance measures emphasize outcomes or facets of performance that can be influenced by policy initiatives or management action. At the same time, few measures are *completely* under the control of a single agency or program. The inclusion of explanatory information in performance reports is therefore of critical importance.

For Alberta, measures are linked to the core businesses, goals, and strategies identified in ministry and government business plans. In establishing measures, a checklist developed by Alberta Treasury suggests asking:

- Do the measures cover the core businesses?
- Are measures easy to understand?
- Will the measurement information help to make better decisions?
- Do the measures focus on success? [5]

In its Government Accountability document, the Office of the Auditor General of Alberta outlines the four characteristics of performance measures their auditors use in assessing performance measures used by ministries within the government:[6]

- Understandibility
- Relevance
- Reliability
- Comparability

In addition, the document points out the cost of providing the performance information should not exceed the expected benefits.

The state of Arizona has developed a "litmus test" for performance measures that provides a quick check on both the suitability of individual measures and the adequacy of a set of measures as a whole (see *Exhibit 1* at the end of this Overview). A more complete evaluation would include consideration of all the characteristics cited above.

Developing a Performance Measurement and Monitoring System

You cannot simply develop a good set of performance measures and rest assured that they will be embraced and used. To increase the likelihood that performance measures will have a positive impact on the organization and an important role in its processes, you must design a performance monitoring system and develop the performance measures in the context of that system.

Although variations may be warranted for a given organizational setting, you should begin your implementation process by considering the following 12 steps. These steps address the fundamentals of measurement design and maintenance, as well as key organizational issues such as commitment, co-ordination, and responsibility.

Step One: Secure leadership commitment.

Whether you envision implementing a performance measurement system across all agencies within your jurisdiction or beginning with a single program in a single agency, securing leadership commitment at the appropriate organizational level is a critical first step. If the measurement initiative is organization-wide, the

commitment of top management not only sends a signal that performance measurement is a high priority, but helps ensure that necessary staff and financial resources will be devoted to the effort. If the measurement effort is focused more narrowly, the commitment of operational officials responsible for the affected programs is a minimum prerequisite for success in most cases.

A combination of strong legislative and executive leadership is particularly important in implementing jurisdiction-wide performance measurement systems. In Alberta, the Government Accountability Act defines the legislative framework for the performance measurement system in Alberta. Government and ministry business plans are the key strategic planning documents. Each business plan sets out the entity's goals, along with the related strategies and measures for each core business.

Some early leaders in the development of performance measurement systems, such as the state of Minnesota, found that a lack of formal legislative involvement created stumbling blocks down the road. In addition, legislative support–which may include passing laws *mandating* performance measurement activities–can help institutionalize the performance measurement process, enabling it to outlast periodic changes in political administrations.

Step Two: Select departments/activities/functions

A massive effort is not required to begin realizing the benefits of performance measurement. Performance measurement activities can provide benefit to a single program or department.

Even those committed to an eventual jurisdiction-wide effort may choose to start on a smaller scale. Many provincial and municipal governments have taken an incremental approach to the implementation of performance measurement systems, beginning with a limited number of departments or programs in order to build credibility, collect information on costs and benefits, and work out any "bugs" prior to full-scale implementation.

In terms of agency/program selection, governments often choose to begin with those agencies/programs which are most supportive of the concept. Other jurisdictions have considered that emphasis on voluntary agency participation may result in greater agency co-operation and a "better product" in the long run. Other governments have initially targeted their largest or most highly visible agencies or programs.

Of course, a pilot or incremental approach increases the overall length of time required for implementation. As a result, a number of governments–such as the US state of Texas–have opted for quicker full-scale implementation.

Step Three: Assign responsibilities for co-ordination.

Duties and responsibilities must be clearly assigned in the development and monitoring phases of a performance measurement system. Within the Alberta government, this is required under the Government Accountability Act. Sections 10 and 14 of the Act set out such responsibilities of Ministers and the Provincial Treasurer respectively. Although specific assignments will vary from one organization to another, most successful systems recognize the value of input from operational employees. Performance measures passed down from "above" will rarely generate the same degree of commitment and enthusiasm as those developed from within.
Assigning a specific individual to co-ordinate performance measurement responsibilities within an agency or program increases accountability in the process. The responsibilities of the co-ordinator should include facilitating management, staff, and customer involvement, as well as co-ordinating activities with other agencies and programs.

Those implementing jurisdiction-wide programs need to consider how to develop the system in a co-ordinated manner across agencies and programs. In Canada, this co-ordination role is typically carried out by Treasury Board/Secretariat staff. In Alberta, the Performance Measurement Group of Alberta Treasury co-ordinates the ongoing development of the system. Most observers recommend that the co-ordinating function reside in a politically independent, impartial office not subject to rapid political change. In the US this has typically been the

budget, planning or auditor's office. The state of Oregon, however, took a different approach, creating the Oregon Progress Board, an independent agency charged with responsibility for setting measurable goals of Oregon's progress, and collecting, analyzing and reporting on performance measurement data.

Step Four: Review/identify mission, goals and objectives.

Strategic planning is a powerful tool for setting priorities and making informed decisions about the future. A successful, results-driven strategic plan involves four essential steps: 1) developing a common vision about where you want to go; 2) assessing where your organization is right now; 3) determining how you will get there; and 4) measuring your progress.

The measurement of performance is often most relevant in the context of a strategic plan. Organizations that have already undertaken a strategic planning process will be ready to build upon these efforts–developing performance measures to assess progress towards identified goals and objectives. Those that have not yet engaged in planning efforts will find it helpful to do so prior to moving into performance measurement. Further details on strategic planning are provided in Module 1 of this curriculum, *Strategic Planning*.

Step Five: Design measures that assess progress towards goals and objectives.

While a first step in designing measures may be to review measures of other similar organizations, it is important to keep in mind that performance measures should reflect your organization's goals and objectives, which may differ from the goals and objectives of similar agencies in other jurisdictions. In fact, researchers cataloging performance measures in use among local government functions found wide variety rather than uniformity among cities and municipalities (see *Exhibit 2*). [7]

After generating a list of potential measures, choose a balanced set that:

- Emphasizes service quality and outcomes rather than input or workload; and
- Includes neither too few nor too many measures.

Step Six: Establish measurable performance targets.

Without a basis of comparison, it is difficult to distinguish "good" from "bad" performance. For example, you may have selected "incidence of measles per 1,000 children" as one measure related to children's health. But, what incidence rate is acceptable for this measure? Is a slight improvement compared to last year's rate satisfactory, or is a better standard available?

As a beginning point, most governments identify their current performance on a particular measure, using this as a baseline with which to compare future performance. Benchmarking–a practice which has been described as "learning from the pros"–can also be useful in setting targets which are based on the exemplary performance of other organizations. Benchmarking techniques are described in further detail in Module 2 of this curriculum, *Benchmarking Best Practices*.

Step Seven: Adopt and document data collection procedures.

After determining *what* to measure, the next step is to determine *how* to measure it. Data specialists or other persons currently engaged in collecting and monitoring operational information may be particularly helpful as you explore some of the following key questions:

- **Information Needs.** What information is needed? How often is it needed?
- **Current Methods.** What data do we already collect? How well does it meet our needs? Should any existing data collection be discontinued? What new information is needed?

- **Current Resources.** What are our current data collection resources, including personnel as well as computer hardware and software?
- **Constraints.** What constraints (money, technology, privacy, politics) must be considered?

A wide array of collection techniques should be explored, taking into account such factors as data validity, reliability, timeliness, and collection costs.

After implementation, data collection methods should be tested and evaluated to ensure that they are in fact yielding the performance information desired.

Step Eight: Audit performance data periodically.

Provisions should be made to verify the accuracy of performance data in order to guard against performance measures becoming "only a more sophisticated means of agency justification." In Alberta, the Auditor General verifies the accuracy of the performance data that is reported in the government wide *Measuring Up* report and carries out limited audit procedures on all ministerial and government measures. Auditing of the relevance of the measures will begin in 1999.

Step Nine: Collect and analyze performance information.

Periodic analysis of performance information is needed to determine whether or not program activities are on track.

- Are expected results being achieved?
- Does trend data show improved performance or is performance deteriorating?
- How does our performance compare with standards, targets, or the performance of others?

A standardized document to track and report on progress can be helpful in organizing this type of information. A sample is included as *Exhibit 3*.

An important point to remember is that performance measures are like the score of a ball game. They can tell us who won and who lost, but they do not tell us why. More in-depth analysis and evaluation often is needed to determine the causes of specific levels of performance and to prescribe corrective actions.

Step Ten: Adopt reporting procedures.

Communication has been described as "the link between performance and accountability." Reporting performance information on a regular basis helps institutionalize the measurement process, ensures that performance information is made available at times that coincide with planning and budget cycles and other important decision making processes, creates incentives for program improvement, and helps build public support.

In adopting reporting procedures, you will need to decide who needs to receive performance information, how often to report this information, and what specific information to report. Because different audiences have different information needs, reporting procedures will need to be tailored accordingly.

- **Elected Officials.** Performance information should be provided at times that coincide with important decision making processes. In order to help elected officials make informed decisions about government programs, reports should be selective in the data presented and include narrative explanations of good or poor performance.

- **Managers.** Managers will generally benefit from receiving performance information on a frequent basis–often monthly, and at a minimum, quarterly. Managers will need more detailed data than other users and will especially benefit from the dissaggregation of data by geographic location, client characteristics, and other factors.
- **Public.** Governments that report their performance to the public, as Alberta does, generally do so on an annual basis. Graphical presentations are often used to present key trends, accompanied by brief narrative explanations to help users understand the reasons for a given level of performance. Some also go on to outline what the organization plans to do to improve its performance (see *Exhibit 4*).

Step Eleven: Ensure a meaningful connection between the performance measurement system and important decision making processes.

Performance measurement efforts are unlikely to be sustained unless the products of these efforts are incorporated into important policy or management processes. One of the most common uses of performance information is in the budget process. Measures are often reported for executive and legislative review in conjunction with departmental budget requests and may subsequently be incorporated into the budget document itself (see *Exhibit 5*).

Unfortunately, even such outward evidence of dedication to performance measurement sometimes has been decried as mere "window dressing." Only when executives and legislators view performance measurement as relevant to their decisions in setting the course of units under their control is it accurate to declare that measurement is truly ingrained into the organization's culture.

Techniques for promoting the use of performance results in program decision making and management are discussed in detail in Module 4 of this curriculum, *Using Performance Results*.

Step Twelve: Continually refine performance measures.

The development of performance measures should not be viewed as a one-time event. Even the most carefully crafted measures may need to be retooled or replaced from time to time in order to keep pace with changing conditions, needs, and knowledge.

Governments should review the utility of performance measures on an annual basis, including discussing the usefulness of data with program management and staff, agency executive management, agency financial management, customers, and stakeholders.

The following types of questions should be explored:

- What do you want the measures to tell you?
- Are the measures working well?
- What problems have been encountered in trying to measure performance?
- Do you need additional measures?
- Are some measures useless?
- Are data not readily available—i.e., too hard to acquire? Too expensive to acquire?
- Are data too difficult to use?
- What developments in the past year will influence current performance results?
- How could performance reports be enhanced?
- What changes should be made in the way data are collected and analyzed?

The decision to adopt a "new and improved" version of a long-standing measure or to drop it altogether, however, should not be taken lightly, for that decision may interrupt the organization's ability to make meaningful comparisons with performance in prior years. If change is really necessary, new performance measures should be

developed with the same degree of care, attention to the organization's objectives, concern for data availability and collection costs, and consideration of other guidelines that apply to the initial development of any set of performance measures.

Sources of Performance Data

As you think about ways to collect performance data for your organization, consider the following options:

- Existing records
- Time logs
- Citizen/client surveys
- Trained observer ratings
- Specially designed data collection processes

You will be in great shape if you discover that most of the information you need is already being collected in one form or another by your agency, department, or government unit, or in some cases, even by outside organizations. Community agencies, for example, may have collected data relevant to your organization, and federal reports may include facts and figures pertinent to local conditions and operations. Most existing performance information, however, is likely to reside within the agency's own records. Budget documents and audit reports often contain relevant data, for example. Many governments have been compiling workload counts, complaint records, and response times for various services for years. That's a good start, but be sure to consider the following:

- If records on workload, complaints, and response times constitute the full extent of available performance information, you will want to strive for more advanced measures of efficiency and effectiveness.
- Be sure to consider a wide array of collection techniques. Harry Hatry warns that governments risk "trivializing" performance measurement by focusing on readily available data to the exclusion of procedures such as client surveys and trained observer ratings.
- Even where data exist, you may need to explore better ways to utilize it. Linkages between agency databases are often non-existent, and formats are rarely standardized. Compiling citywide or province-wide data–and even exchanging information between agencies–is often problematic.

A lot of good data for output and efficiency measures can be derived from **time logs** that record the amount of time staff devote to various functions. Such logs can be maintained on either a comprehensive or sample basis to provide the raw data for the calculation of efficiency measures (e.g., work units per employee-hour).

Surveys of citizens or clients are yet another source of good performance data. Recommended sets of effectiveness measures often rely extensively on survey responses–for example, the set of effectiveness measures for library services recommended by the Urban Institute (see *Exhibit 6*). If your government regularly surveys the general populace, request a copy of the questionnaire and see if it is possible to add questions that would reveal the extent of use of your facilities or services and the degree of citizen satisfaction with them. If no such survey is routinely conducted, you might consider initiating that practice or developing a survey for your own department. University survey research centers can be a good source of assistance.

A word of caution on surveying, however, is in order. If you are going to conduct a survey, do it properly or you could be wasting a lot of time and other resources for information of little value. Surveying is more complicated than it seems at first blush. A host of questions must be answered. For example, how do you draw a good sample? How many respondents do you need in order to be confident that you have enough truly to represent the entire population? How can you avoid even subtle bias in wording the questions you wish to ask? It is often a good idea to work with an experienced survey consultant or a university-based survey research center in conducting your survey, but if you wish to proceed on your own, there are many good references to help you through the process.

Two major considerations as you plan your survey involve "who" and "how." Who will be surveyed–a sample of all citizens or just clients of a particular service? A survey of all citizens can give you a better idea of the percentage receiving a service or using a facility and, perhaps, an explanation of why some do and others do not. Actual clients of a service, however, can provide more informed feedback regarding performance. A survey of all citizens should provide a subsample of users, but their numbers would not be as great as when clients of a service are the target population.

The "how" question in surveying refers to survey mode. Acceptable modes include face-to-face interviews, telephone interviews, and mailed questionnaires. Face-to-face interviews provide the best, most detailed information, but that form of surveying is also the most expensive to conduct. Surveys conducted by mail are the least expensive option, but response rates are typically poorer in this mode (often less than 20 percent), yielding results of questionable value. The best option, considering expense and response rates, is often the telephone interview method. With a good sampling procedure, a carefully prepared questionnaire, and well-trained interviewers, telephone surveys can yield good information at moderate expense.

What about mail-in questionnaires printed in the local newspaper? Or call-in polls by a radio station. Don't count on reliable feedback from any of them! Appropriate sampling is vital to reliable survey results, and these methods fall well short of any acceptable sampling technique. The results may be extremely misleading, departing dramatically from general citizen views.

Still another source of performance data are **trained observer** ratings. Because such ratings are most commonly used to grade the condition of public facilities, they typically support effectiveness measures or productivity measures.

Consider the following example. Suppose you want some objective ratings of local park conditions. Using a trained observer system, you would first develop a manual that identifies grades of turf maintenance, tree-trimming, flower bed conditions, hedge maintenance, restroom conditions, litter pick-up, and so forth. It is a good idea to include photographs depicting the various conditions, as well as narrative descriptions, in the manual. Next, you would arrange for the availability of raters from outside the parks maintenance function–perhaps clerical employees from other departments who could be available for rating purposes a few hours per month. In some cases, the arrangement may require personal time and supplemental pay. Next, you would train the raters to detect differences between various grades of facility conditions.

Now you can schedule inspections and begin to compile statistics on the condition of park facilities. To maintain reliable ratings, it is a good idea for the supervisor periodically to check personally on a facility's condition immediately after a scheduled inspection in order to see if his or her own rating agrees with that of the assigned observer. It is also a good idea to schedule some closely overlapping inspections by two trained observers and to follow up on a facility inspection if the two ratings differ substantially.

This example was for parks maintenance, but virtually the same procedure may be followed for rating other public facilities. New York City, for example, uses trained observers to evaluate the cleanliness of streets and sidewalks. Called "Scorecard," the program is tied to a seven-point scale of cleanliness, with photographic and narrative guidance for each grade. In order to ensure representative inspections of actual street conditions, the monthly schedule assigns different observers to rate a particular district, and prescribes which week, day of the week, and time of day the ratings are conducted.

Figure 2

New York's Scorecard Rating Scale for Streets and Sidewalks

Acceptably Clean

1.0 A clean street. No litter
1.2 A clean street, except for a few traces or pieces of litter

Not Acceptably Clean

1.5 No concentration of litter. There are no piles of litter, and there are large gaps between pieces of litter.
1.8 Litter is concentrated in spots; there may either be large gaps between piles of litter, or small gaps between pieces of litter.
2.0 Litter is concentrated; there are small gaps between piles of litter.
2.5 Litter is highly concentrated; there are no gaps in the piles of litter. The litter is a straight line along the curb.
3.0 Litter is very highly concentrated; there are no gaps in the piles of litter. The litter is a straight line along and over the curb.

Source: *Evaluating Municipal Services: Scorecard Cleanliness Program: Prospectus* (New York City: Mayor's Office of Operations).

Even with the options of existing records, time logs, citizen/client surveys, and trained observer ratings, you may still need to design additional methods of data collection to meet all your information needs. Although data collection almost inevitably imposes at least a few new burdens on operating personnel, it is important that you keep two thoughts in mind as you develop your data collection procedures:

- The best data collection procedures are integrated into how staff do their jobs and impose only a *minimal* burden on frontline staff; and
- If the cost of collecting a piece of information exceeds the value of that information, don't do it. Consider alternative ways to assess that performance dimension.

Overcoming Resistance to Performance Measurement

Some people in your organization are likely to oppose performance measurement and to resist its development either overtly or subtly. Opposition is likely to come from persons who feel overburdened already and dread the additional chore of data collection. Perhaps past data collection efforts have been "paper generators" rather than useful management tools. Perhaps there is skepticism about whether elected officials and other key decision makers will actually use the data in decision making. Or perhaps managers fear that the data *will* be used–to reduce budgets, to eliminate staff, or in other negative ways.

Some department heads and supervisors may perceive the performance measurement drive as a sign that top executives or legislators lack confidence in their abilities, seizing upon performance measurement as a means of closer oversight. They may fear that performance measures are the first step in an enforced speedup of

operations, putting additional pressure on employees and supervisors. Or, they may simply fear that performance inefficiencies, heretofore hidden, will now be revealed by performance measures.

Do not be surprised by such resistance. Also, do not be surprised by assertions that it is impossible to measure performance in a given function or that the performance measures you have suggested focus on relatively insignificant dimensions of performance. As discussed in further detail in Module 4 of this curriculum, *Using Performance Results*, keys to addressing–or avoiding– such opposition include:

- Involving operating personnel, and clients, in the design of the performance measurement system. Invite them early on to help you get it right.
- Establishing incentives to encourage managers to use performance information, such as providing greater operational and budgetary flexibility in return for accountability.
- Providing training to help managers and other stakeholders understand the importance and benefits of performance measurement.

Implementation Tips

Performance measurement holds a lot of promise. It can be a valuable tool in helping elected officials and public managers make better-informed policy decisions, determine the best uses of limited resources, enhance service quality, and improve communication with citizens.

Yet performance measurement, if not properly implemented, has the potential to come and go like the latest fad, to become what one US Southern govenor called a "pet rock of governance." What can you do to help realize the full potential of performance measurement? Successes elsewhere suggest the following implementation tips:

- Develop leadership support.
- Ensure that there is a co-ordinator to keep efforts moving along.
- Train staff in the development and use of measures.
- Use a collaborative approach to developing measures.
- Consult with your auditor if you have one.
- Build on your agency or program's strategic plan.
- Focus on results.
- Choose a limited number of meaningful measures.
- Minimize data collection costs–both in terms of money and time.
- Use performance information in significant ways.

Suggested Readings for More Information about Performance Measurement

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[6] Page 6-7, Feb 97

Module 4

USING PERFORMANCE RESULTS

Module 4

USING PERFORMANCE RESULTS

An Overview for Workshop Participants

Alberta
GOVERNMENT OF ALBERTA

Module 4: Using Performance Results

An Overview For Workshop Participants

It is not enough simply to undertake performance measurement activities–performance information must be *used* in order to be of value. Measures can also provide valuable information that can assist managers in managing their programs. By identifying the key determinants of success, and their influence on the outcome, appropriate strategies can be designed to achieve goals. In Alberta, while the level and quality of service for many programs has been redefined, it is still uncertain if appropriate levels have been identified. Especially important is determining whether programs are underperforming due to inadequate resources or if reallocating resources to other programs may be more effective in producing desired results.

- A number of US states and localities are using performance measures to assess progress towards strategic goals. One of the best-known examples is the state of Oregon, where the Legislature created the Oregon Progress Board–an independent state agency–to track the state's progress toward achieving the goals of its 20-year strategic plan.

- Day-to-day use of a performance management system to plan, manage, and assess progress has helped the city of Grande Prairie significantly reduce service delivery costs while maintaining high levels of citizen satisfaction.

- The Tennessee Bureau of Alcohol and Drug Abuse Services has begun using outcome-based performance measures in its contracts with nonprofit providers of services to disadvantaged youths.

Uses of Performance Measurement Information

As illustrated in the examples above, there are a number of ways that performance information can be used, including:

- **Accountability.** Performance measurement can be used to answer for one's defined responsibilities. One of the major reasons for implementing performance measurement in Alberta was the government's commitment to be open and accountable to the public. This policy direction has since become legislation under the *Government Accountability Act.* The key reports required under the *Act* are the business plan/budget, the financial reports, and consolidated annual reports including financial statements and a comparison of actual performance and the desired results.[1]

- **Strategic planning.** Performance measurement supports strategic planning and goal setting by gauging progress towards established goals. And, by showing what is working and what is not, performance data can help inform the next round of the planning process. In other words, are strategies working, or do new strategies need to be considered? Are the plan's goals still appropriate given changing conditions and needs? Module 1 of this curriculum, *Strategic Planning*, discusses these issues in detail.

- **Benchmarking.** Performance data can be very useful for benchmarking–a practice described in Module 2 of this curriculum, *Benchmarking Best Practices*. In simple terms, benchmarking has been described as "learning from the pros." But how does one identify these "pros" and determine what accounts for their success? Performance data provides a basis for identifying "best practices" by comparing the results achieved by organizations using differing practices, approaches, or processes. This in turn can lead to the identification of methods to improve service delivery and program performance.

- **Budgeting and resource allocation**. As discussed in detail in Module 5 of this curriculum, *Performance Budgeting*, the use of performance measurement in the budget process ties financial costs to program results. This leaves policymakers better prepared to assign priorities, expand or reduce programs, and accurately assess the costs of achieving desired results.

- **Contract monitoring**. As governments increasingly contract out the provision of services to private vendors, nonprofit organizations, and other governments, performance measurement becomes a critical tool in controlling risks and ensuring service quality. As discussed in detail in Module 6 of this curriculum, *Contracting for Performance*, contract monitors need performance measures in order to know whether or not contractors are fulfilling their performance obligations.

- **Interdepartmental collaboration.** By providing a clear direction for efforts in a particular functional area, performance measures can be used to promote interdepartmental communication and collaboration.

- **Communication with the public.** Public reporting of performance measures can enhance citizens' understanding and support of public programs.

Users of Performance Information

Clearly, performance information can improve the decision making of a wide variety of users, including:

- Chief executives
- Elected officials
- Budget analysts
- Auditors
- Department administrators
- Program managers
- Program customers and stakeholders
- General public

Elected officials, for example, can use performance information to help determine the need for policy changes in certain functional areas and/or to guide resource allocation decisions.

Regular review of performance data can help chief executives avoid unpleasant "surprises" by directing attention to potential performance problems before they show up in newspaper headlines.

And performance measures have long been central to the work of provincial and local auditors.

But potentially the most important users of performance are program managers. In fact, many argue that a performance measurement system is not worth its cost unless the information it produces is useful to managers.

How Can Managers Use Performance Information?

Managers can use performance information in four basic ways:

1. To monitor progress toward long-term strategic goals and to plan for the future

Research shows that performance information is most likely to be used where there is a strong link between performance measures and planning.[2] Performance information can reaffirm an organization's strategic plan or indicate that it needs to be modified. Is progress toward goals and objectives being realized as expected? Are expected results being achieved? Does the plan need modification?

2. To improve service delivery

The rationale behind performance measurement is to use information about organizational or program performance in order to *make things better*. Performance measurement systems can provide managers with important information about:

- Productivity in the organization;
- The effectiveness of the organization and its programs;
- The quality of the organization's products or services;
- The timeliness with which the organization delivers its products or services; and
- How a program/organization's performance compares to similar programs/organizations.

This in turn can help managers:

- Identify problem areas that need attention;
- Identify approaches that are working particularly well and might warrant replication in other settings;
- Better allocate resources among geographic areas or clientele groups; and
- Determine staffing and resource needs.

3. To manage personnel

The ability of an organization to achieve its goals and objectives is closely tied to the performance of its employees. The establishment of clear *organizational* performance measures often goes a long way towards increasing the motivation of managers and employees–many of whom otherwise see little direct connection between their efforts and any long-term goals. But, performance measurement can also be integrated into the personnel appraisal process, providing an objective means of assessing the achievement of group and/or individual targets.

4. To improve both internal and external communications

Performance measures can serve as an important tool of internal communication, relaying expectations, perceptions, and problems between managerial levels. Performance measurement can also lead to an ongoing dialogue with external customers through the use of tools such as surveys, interviews, and focus groups.

What Affects the Use of Performance Information?

Unfortunately, the issue of use is often overlooked. All too often we assume that if information is available then of course it will be used. But use is far from automatic. It must be identified as a desired end and facilitated and encouraged along the way. Even the best performance information is of limited value if it is not used to identify performance gaps, set improvement targets and improve results.

There are a number of factors that influence the extent to which performance information is used, including:

- ***Relevance of information to decision makers' needs.*** It is important to recognize that different types of decision makers have different information needs. Performance information is most likely to be used if it is relevant to decision makers' needs and related to their job responsibilities.

- ***Reporting procedures.*** Not only must relevant information be collected, it must be reported in a way that is understandable and provides an appropriate level of detail. In this case, one size does not fit all. Different reporting formats are generally needed to meet the needs of different types of users. A program manager, for example, is likely to need a much greater level of detail than a citizen in the community.

- ***Validity and appropriateness of measures.*** The more that the methodologies used in the measurement process are perceived as valid and appropriate by the decision maker(s), the more likely the information is to be utilized.

- ***Clarity of program goals.*** Performance information is most likely to be used where there is clear consensus on program goals. In cases where there are hidden agendas or conflicting goals among stakeholders, performance information often goes unused.

- ***Level of stakeholder involvement in development of measures.*** Decision makers and other stakeholders are generally most supportive of performance measurement systems that they have helped to develop themselves. Not only are such systems most likely to address their needs, but they are also less "threatening" by nature. Indeed, many individuals feel very threatened when a performance measurement system is introduced, fearing that "negative" performance information will lead to budgetary or staffing reductions–or even program elimination.

- ***Process used to develop performance measurement systems.*** Poorly planned performance measurement systems are likely to go unused due to low quality and credibility. Poor planning can result in an inappropriate performance measurement focus, incorrect assessment of program goals, and an overall poor performance measurement process. Measurement tasks can be mismanaged and results are likely to be inaccurate.

- ***Clarity of reporting guidelines.*** Unclear reporting guidelines and rules can result in inaccurate or sloppy reporting by departments or agencies and late or incomplete performance reports.

- ***Organizational constraints.*** Bureaucratic constraints, or "red-tape," present barriers to the use of performance information. Difficulty in identifying programmatic goals due to inter- or intra-organizational disagreements, difficulties in performing measurement tasks, or difficulties in disseminating findings are examples of such constraints.

Steps to Encourage the Use of Performance Information

The following steps are key to encouraging the use of performance information in the management process:

Step One: Design the performance measurement system to encourage use.

The quality and the appropriateness of the performance measures themselves have a great deal of effect on the overall credibility of the performance measurement system. If managers, decision makers, or line employees perceive the measures to be inappropriate, inaccurate, or irrelevant, participation in the measurement process may be jeopardized.

In order to help ensure that performance information will be used, the system should be designed so that:[3]

- Measures are used to track progress towards goals in business plan;
- A collaborative approach is used to develop measures;
- The focus is on results, not processes;
- Measures are relevant to the performance being measured;
- Measures are customized to fit specific programs;
- Multiple measures are developed to capture the complexity of programs, but at the same time, a limited number of meaningful measures are chosen;
- Measures are reliable–that is, they produce accurate and verifiable information;
- Measures are easily understood; and
- The data on which results are based can be trusted.

Step Two: Demonstrate leadership commitment.

Performance measurement efforts may initially be viewed with skepticism by managers who feel overburdened already and dread the additional chore of data collection. *Demonstrated* leadership commitment–including the *use* of performance information–can send the message that performance measurement isn't just a "waste of time."

There are a number of ways that leaders can demonstrate commitment to the performance measurement process, including:

- *Establishing a legislative framework.* In Alberta, the Government Accountability Act, 1995 establishes the framework for performance measurement including use of performance results. In the US, a number of states and localities have enacted legislation that supports the performance measurement process. The state of Arizona, for example, enacted the Arizona Budget Reform Act of 1993 which calls for agencies to develop strategic plans and performance measures to support their budget processes.

- *Showing consistent legislative interest.* Legislators can show consistent interest in performance measures and their use at authorization, appropriation, budget, and oversight hearings.[4]

- *Discussing performance at regularly scheduled management meetings.* Chief executives and other top managers can demonstrate their commitment to performance measurement by holding regularly scheduled meetings where program managers are encouraged to be frank in discussing program results.[5]

- *Allocate adequate time and resources to the effort.*

Step Three: Provide training.

Regular performance reports will not in and of themselves improve service delivery–or turn elected officials and employees into better decision makers and managers.[6] Legislators, managers, and line employees need training in using measures in order to improve performance and decision making.

The state of Oregon found that training in the mechanics of measuring performance and the positive uses of performance information helped to develop staff level support for performance measurement efforts.[7] Oregon's approach was to provide training to all agency heads as well as to volunteer co-ordinators in each agency. These co-ordinators–who also received ongoing guidance and assistance–served as mentors and trainers for others in their agencies. Two videos were developed to supplement the training efforts. The videos featured testimony from the governor, agency heads, a union leader, and line staff on the benefits of performance measurement.

As the state of Texas learned from its early experience, training for legislators should not be overlooked. Texas initially focused its training almost exclusively on agency managers, holding extensive workshops and providing technical assistance. In hindsight, key officials felt that there should have been an equally aggressive orientation effort for legislators, focusing on performance measurement and performance budgeting concepts. Indeed, they find raising legislators' understanding of and comfort with performance-based budgeting to be an ongoing challenge.[8]

At a minimum, both managers and policymakers should receive training on:[9]

- The benefits of performance measurement;
- The performance measurement process and the mechanics of developing measures; and
- Information on ways to use performance information, including allocating resources, formulating and justifying budgets, performance contracting, and personnel management.

Step Four: Provide incentives to encourage use.

Granting public managers operational flexibility in exchange for accountability can provide motivation for embracing the process. A number of reforms that provide flexibility and incentives to line management have proven successful in other countries. These reforms include:

- *Simplifying management rules and regulations.* The governments of Australia, Canada, New Zealand, and the United Kingdom, for example, have simplified personnel rules, giving line management greater flexibility to recruit, assign, and pay staff.

- *Giving managers greater decision making authority over financial and human resources.* These same countries have given departments a lump sum of funds to spend on their operations. Departments are generally free to decide how to allocate funds across categories. The four countries have also eliminated staff ceilings so that departments can decide how to staff their programs within the limits of their operating budgets. Inefficient year-end spending is discouraged by allowing all or part of unspent funds to be carried forward into the coming year or years.

- *Providing incentives in the form of shared productivity gains or market-type mechanisms.* Market-type mechanisms in the four countries have included allowing departments to charge for services and retain the resulting revenues, opening up government-provided services to competition and allowing agencies to choose between government and private sector service providers.[10]

In the US, the federal government and a number of state governments are exploring these types of reforms. The federal Government Performance and Results Act of 1994 includes provisions to allow agencies to seek relief from certain administrative procedural requirements and controls. Texas rewards agencies that meet or exceed performance expectations with increased financial transfer authority, contract authority, or appropriations. And Georgia rewards innovations that yield ongoing savings for the state, allowing agencies to retain up to half of what is saved each year for the first three years.

Step Five: Integrate performance information into management information systems.

Using management information systems (MIS) to maintain, analyze, and report performance information is important to the success of a performance measurement system. Fortunately, rapid advances in computer technologies continue to enhance performance monitoring capabilities.

In order to integrate management information systems into the performance measurement process, data collection, maintenance, and reporting issues should be discussed alongside measurement issues. Involving a computer expert in the performance measurement planning process will facilitate the timely identification of any potential problems related to data maintenance or reporting.

Specific attention should be given to:

- Data sources;
- The relationship of measures to one another; and
- Desired reporting formats.

One model that other governments can consider in updating their MIS systems is the state of Minnesota's "Performance and Outcomes Reporting and Monitoring System." The system–known as PERFORMS–manages performance data from agencies on a statewide basis. It offers the ability to produce both internal and external performance reports in a consistent format. The information database is capable of maintaining at least 40 years of information, enabling a comparison of actual performance against long-term goals, objectives, and measures.[11]

Step Six: Tailor reports to meet decision makers' needs.

Communication has been described as "the link between performance and accountability."[12] Reporting performance information on a regular basis helps institutionalize the measurement process, ensures that performance information is made available at times that coincide with planning and budget cycles and other important decision making processes, creates incentives for program improvement, and helps build public support.

In adopting reporting procedures, you will need to decide who needs to receive performance information, how often to report this information, and what specific information to report. It is important to recognize that not all performance information will be useful to all users and decision makers. For example, what a line-manager finds useful will be significantly different from what an executive-level manager will find relevant. Because different audiences have differing information needs, reporting procedures will need to be tailored accordingly.

Elected Officials: Performance information should be provided at times that coincide with important decision making processes. In order to help elected officials make informed decisions about government programs, reports should be selective in the data presented, focusing attention on the most critical issues. The following tips should also be considered:[13]

- Linking performance information to an agency's strategic goals and mission will help users of the information judge the significance of what is being reported;

- Reports should include narrative explanations of good or poor performance, offering managers the opportunity to explain especially high or low numbers and giving policymakers a more complete understanding of the meaning of the data. Plans and schedules for achieving unmet goals should be included;
- Reports should include a description of the means used to verify and validate data; and
- Information should be presented in a "user-friendly" format, using visual aids such as graphs and tables, defining technical terms, and avoiding the use of jargon.

Managers: Managers will generally benefit from receiving performance information on a frequent basis–often monthly, and at a minimum, quarterly. Executive managers may need only a few key measures. In contrast, line managers will need more detailed data and will especially benefit from the dissaggregation of data by geographic location, client characteristics, and other factors. Indeed, reporting only aggregate data can be misleading, clouding areas where improvement may be needed.

Public: Reporting to the public is generally done on an annual basis. Graphical presentations are often used to present key trends, accompanied by brief narrative explanations to help users understand the reasons for a given level of performance and to outline what the organization plans to do to improve its performance.

The important point to remember is to focus on what is truly important to each type of decision maker. Although it may be tempting to report all available data, excess information often does nothing more than overwhelm potential users.

Step Seven: Integrate performance information into the personnel management system

There is a common misconception that the sole purpose of using performance measures in the personnel appraisal process is to link performance to pay. In fact, a study of personnel appraisal processes in Southern US states found that the most important uses of performance measures were for employee development as well as communication between managers and employees.[14] Other uses included:

- Developing an inventory of employee skills;
- Assessing employee management training/development needs;
- Updating position descriptions;
- Validating selection promotion techniques;
- Making lateral movements in the organization;
- Making dismissal/demotion decisions; and
- Making promotion decisions.

Experience suggests that pay should be linked to performance only after the performance measurement system has become well-established in an organization and is widely accepted as valid and meaningful.[15]

The keys to effectively integrating performance measurement into the personnel management process include ensuring that:

- Each employee understands the agency's mission and goals;
- Each employee's performance standards are clearly related to the agency's mission and goals are understood by both the employee and manager;
- There is an ongoing measurement and feedback system that provides information to the manager and employee; and
- The system rewards good performance and addresses poor performance.

Step Eight: Review measures to ensure continuing utility.

The development of performance measures should not be viewed as a one-time event. Even the most carefully crafted measures may need to be retooled or replaced from time to time in order to keep pace with changing conditions, needs, and knowledge.

Governments should review the utility of performance measures on an annual basis, including discussing the usefulness of data with program management and staff, agency executive management, agency financial management, customers, and stakeholders.

The following types of questions should be explored:[16]

- What do you want the measures to tell you?
- Are the measures working well?
- What problems have been encountered in trying to measure performance?
- Do you need additional measures?
- Are some measures useless?
- Are data not really available—i.e., too hard to acquire? Too expensive to acquire?
- Are data too difficult to use?
- What developments in the past year will influence current performance measures?
- How could performance reports be enhanced?
- What changes should be made in the way data are collected and analyzed?

Step Nine: Review the organization's use of performance information.

Periodic review of how performance information is being used will enable you to identify any barriers which need to be addressed:

- Are managers using the performance measurement system to establish relative priorities for matters deserving their attention?
- Do managers use performance data in preparing the organization's budget?
- Is performance data being used as a gauge in assessing individual performance?
- If information is not being used, why not? How can these barriers be addressed?

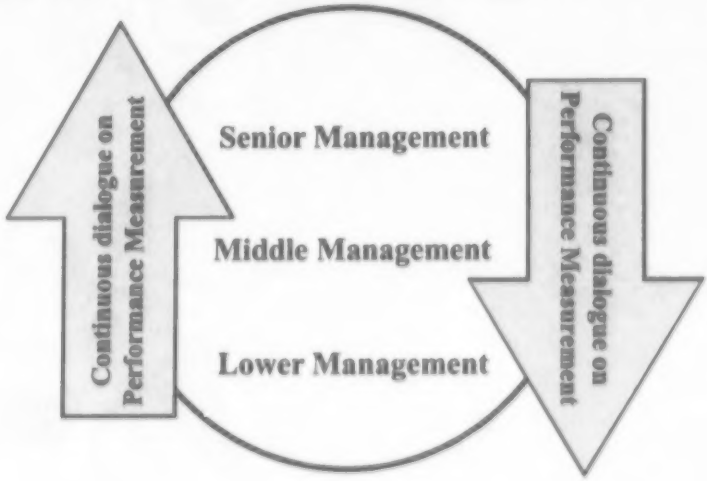
The Organizational Context

It is important to recognize that performance measurement is a dynamic process. Usable information is not limited to a monthly or annual report–the *process* itself makes a difference.[17]

In order to have a *useful*, *usable*, and *utilized* performance measurement process, a "whole-organizational approach" is advocated. What this means is that the *entire* organization *must* be considered in the practical management of performance measurement activities. *Figure 1* illustrates this approach.

Figure 1

The "Whole-Organization" Approach to Performance Measurement



Source: Julia E. Melkers, *Evaluation Utilization in the R&D Setting*, Ph.D. dissertation (Syracuse, NY: Syracuse University, 1993).

While senior managers communicate both programmatic as well as process expectations to middle and lower management, they in turn receive feedback and data that inform their understanding of the organization and its performance.

The organizational context is important to the ultimate success of a performance measurement system. As detailed in Module 7 of this curriculum, *Creating and Sustaining a Supportive Environment*, the development of an effective performance measurement system often requires extensive changes in organizational culture. Conducting performance measurement activities in an environment that is not receptive–or that is even downright hostile–is not only frustrating but self-defeating.

Taking steps to ensure that performance measurement has utility beyond mere "scorecarding" can go a long way towards addressing negative perceptions that might derail the process. Although performance measurement has the potential to act as an innovating force in organizations, the reality of this will be determined by how performance information is integrated into the day-to-day operations and decision making of the organization–in other words, by how the information actually is *used*.

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[12] Epstein.

[13] Adapted from: US General Accounting Office. Untitled. (GAO/GGD-96-66R, February 1996) and Hatry et al.

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Module 5

PERFORMANCE BUDGETING

Module 5

PERFORMANCE BUDGETING

Overview For Workshop Participants

Alberta
GOVERNMENT OF ALBERTA

Module 5: Performance Budgeting

An Overview For Workshop Participants

Faced with fiscal constraints and demands for more and better public services, governments at every level are discussing, experimenting with, and implementing new ways of budgeting. The budget is increasingly being seen as a tool to promote government accountability and effectiveness, rather than simply as a vehicle for allocating resources and controlling expenditures.

Performance based budgeting has been defined as a system wherein managers are provided with the flexibility to utilize agency resources as required, in return for their commitment to achieve certain performance results. This was also the fundamental underlying philosophy of the business planning process adopted by the government of Alberta in 1993. Ministries were provided with fixed resource allocations and expected to fulfill program obligations within those parameters. In exchange, financial controls were relaxed and the authority to reallocate funds among programs was delegated to ministries.

While no Canadian jurisdictions seem to have fully implemented performance based budgeting, many are putting in place the necessary prerequisites, such as activity based costing and performance measurement. In the US, a number of cities and states use this approach to budgeting; leading the field are the states of Texas and North Carolina.

What the various approaches have in common is an emphasis on results. Budgets are based on agreed upon outcomes rather than "historical efforts and good intentions."[1] Initiatives such as these are often referred to as *performance budgeting* and are designed to help answer the questions: can issues and problems be solved with more money or might other measures be more effective.[2]

What is Performance Budgeting?

Performance budgeting is a system of planning, budgeting, and evaluation that emphasizes the relationship between money budgeted and results expected.

Performance budgeting:

- *Focuses on results.* Departments are held accountable to certain performance standards. There is a greater awareness of what services taxpayers are receiving for their tax dollars.
- *Is flexible.* Money is often allocated in lump sums rather than line-item budgets, giving managers the flexibility to determine how best to achieve results.
- *Is inclusive.* It involves policymakers, managers, and often citizens in the budget "discussion" through the development of strategic plans, identification of spending priorities, and evaluation of performance. [3]
- *Has a long-term perspective.* By recognizing the relationship between strategic planning and resource allocation, performance budgeting focuses more attention on longer time horizons. [4]

Common characteristics of performance budgets include:

- Agency identification of mission, goals, and objectives;
- Linkage of strategic planning information with the budget;
- Development and integration of performance measures into the budget; and
- Disaggregation of expenditures into very broad areas (such as personnel, operating expenses, and capital outlays) rather than more specific line-items.

As shown in *Figure 1*, performance budgeting is an integral part of an *ongoing process* that focuses on government accountability and performance improvement.

Figure 1

Budgeting is Part of the Performance Measurement Cycle

How Can Performance Information be Incorporated into the Budget Process?

Performance information can be incorporated into the budget process in three primary ways. Governments can: [5]

- Allocate resources based on results;
- Improve internal management of a given level of resources; and/or
- Use performance measures in financial reporting.

Although this training curriculum focuses on the use of performance information to allocate resources, there are clearly ways that individual managers can use and benefit from performance information even if their jurisdiction is not undertaking a broader effort. Individual managers are encouraged to turn to Module 4, *Using Performance Results*, for further information on how they can use performance information in managing internal resources and reporting to the public.

Contrast to Traditional Budgeting Methods

Performance budgeting represents a significant departure from traditional line-item budgeting.

A line-item budget is primarily a tool for controlling expenditures. As shown in *Figure 2*, a line-item budget typically spells out the level of spending allowed for specific purposes. As the fiscal year progresses, departmental spending must be within these amounts unless formal budget amendments are approved. Underspending in one category cannot automatically be used to supplement another category.

Figure 2

Sample Line-Item Budget
Department of Economic Development

	FY1993	FY1994
Personnel Costs	$1,813,015	$1,870,417
Employee Benefits	337,527	398,196
Travel In-State	60,533	86,000
Travel Out-of-State	112,105	198,000
Repairs and Maintenance	20,220	48,201
Rentals and Leases	454,123	377,000
Utilities and Communication	170,232	197,500
Professional Services	1,355,752	1,397,000
Supplies & Operating Expenses	188,380	428,102
Transportation Equipment Maintenance	2,611	43,000
Transportation Equipment—Purchases	-0-	80,000
Other Equipment—Purchases	13,278	20,000
Total Expenditures	$4,527,776	$5,143,416

While line-items can be useful in helping managers with internal control, they are not as useful as a policy or decision making tool. They assure elected and administrative officials that money is being spent only for approved purposes, but they do not show what is being accomplished with the money.

Other major drawbacks of line-item budgets include:

- They promote "inertia," with the focus being on making marginal changes from year to year.
- They can result in inefficient and uneconomical activities because management is not permitted enough flexibility to address changing situations and often must "use it or lose it" at the end of the year.
- They invite micromanagement, encouraging questions such as "why are we spending so much on supplies?" rather than "how have our efforts increased manufacturing exports this year?"

In contrast, performance budgeting has more of a policymaking orientation. It:

- Connects plans, measures, and budgets;
- Forces departments and policymakers to think about the big picture;
- Provides better information about the impact of budget decisions on people;
- Gives departments increased budgetary flexibility and incentives for generating budget savings;
- Allows for ongoing monitoring to see if agencies are moving in the right direction;
- Strengthens legislative decision making and oversight;

- Enhances financial accountability to citizens, decision makers, and governmental monitoring agencies; and
- Supports better management and evaluation.

As shown in *Figure 3*, a performance budget tells the reader much more about what the department does and what it is expected to accomplish with the funds budgeted.

Figure 3

Sample Performance Budget

Health Department, City of Milwaukee

Objective 1: To control the spread of communicable disease in Milwaukee by increasing the immunization level of two-year olds from 35 percent in 1993 to 90 percent by the year 2000.

		1993 Actual	1993 Expenditure	1994 Estimate	1994 Budget
Outcome Indicator:	Percent of two-year-olds immunized	35.0%	$4,172,585	37.2%	$5,813,303

Source: Excerpted from Anne Spray Kinney, "Mission, Management, And Service Delivery: Integrating Strategic Planning and Budgeting in Milwaukee," *Government Finance Review*, October 1995, p. 9.

Does moving to a performance budget mean that elected officials must give up all control over expenditures? No. Elected officials continue to have the authority to review expenditures at any time, although typically they do so only as a spot check or to resolve particular problems.[6] And, most importantly, elected officials have the authority to hold department heads accountable for achieving the performance targets specified in the budget–and within the funds appropriated.

Nevertheless, some governments make the transition to performance budgeting slowly in order to increase decision makers' comfort with the new system. Some, for example, continue to appropriate by line-item, while giving managers more flexibility to move funds; others maintain general types of line-item control, such as ceilings on the number of job positions in each department.[7]

The Evolution of Performance Budgeting

The current interest in performance budgeting builds on previous budget research and experience. For example:

- The New York Bureau of Municipal Research of 1907, the Hoover Commission of the 1940s, and systems analysis of the 1950s introduced elements that have found application in later budgeting systems, including attention to developing measures of workload and cost effectiveness;

- The Planning-Programming-Budgeting system (PPBS), which was applied initially at the federal level and became more widely popular in the 1960s, strengthened and institutionalized program analysis, multi-year planning, and rolling multi-year budgets;[4]

- Management by objectives (MBO), a technique that requires regular reports on departmental progress toward achieving agreed-upon objectives, became popular in the 1970s–though primarily as a management, rather than budgeting, tool; and

- Zero-based budgeting (ZBB), introduced at the U.S federal level in the 1970s, emphasized evaluating all programs each year rather than "concentrating on budgetary changes at the margin." ZBB attempted to analyze the incremental change in a program's output at different levels of funding.

Clearly, performance budgeting is not an entirely new budgeting system. Elements of earlier systems that are reflected in performance budgeting include:

- The planning emphasis of PPBS is incorporated through strategic planning and the use of a program structure;
- Common to both MBO and performance budgeting are the setting of objectives and performance targets; and
- ZBB's determination of expected levels of performance for each level of expenditure and setting priorities on spending "packages" are concepts which a number of governments have incorporated into performance budgeting initiatives.

What lessons can be learned from these earlier efforts? Analysis by the Congressional Budget Office suggests that:[5]

- Commitment to the measurement system at all levels is necessary if it is to be successful. Earlier efforts suffered from lack of clear agreement over goals and objectives.
- The data that are collected must be used. Each of the earlier systems produced "mounds of paper" which, for the most part, were not read nor used for decision making—breeding cynicism among participants.
- The design of the budget systems must take into account the difficulties in linking the measurement of outcomes to budgeting

Implementation Steps

As you move towards implementation, be sure to give attention to the shortcomings that derailed earlier efforts–in particular, take steps to help ensure that performance information will be *used*. Also, be aware that implementation is a continuous process; it evolves as improvements are made in performance measures and the reporting of performance.

Step One: Gain consensus and commitment from key players.

As discussed in further detail in Module 7, *Creating and Sustaining a Supportive Environment*, there are two basic approaches toward creating both a structure and attitudes that will support performance budgeting over the long-term. The "top-down" approach mandates these activities through resolution or legislation. The state of Arizona and the city of Austin, Texas, for example, both used legislation to "kick-start" budget reform.

The "bottom-up" approach seeks to build consensus more slowly. Catawba County, North Carolina, took such an approach, asking departments to volunteer for a pilot program rather than mandating participation by all departments. The result has been a dual budgeting system in which some departments continue to develop a line-item budget, while other departments develop performance measures, have more budget flexibility, and focus on outcomes.

Performance based budgeting is not envisioned as a reward and punishment system based on level of performance, but rather as an approach to evidence based decision making. The key intended benefit is to shift the focus and debate away from the level of program inputs, and focus on results. If the current level of results is unacceptable, the

reasons for poor performance should be examined and if current strategies are ineffective, program changes may be necessary.[10]

The relationship between all stakeholders is crucial for understanding and success. A lack of consensus between the branches is likely to result in either:

- Management viewing performance measurement as merely a "paper exercise" and failing to use the information for program improvement; and/or
- The legislature failing to see the value of performance information and continuing to rely on line-item budgeting.

Early involvement of stakeholders in the development of strategic plans and performance measures can go a long way towards building consensus and commitment. As discussed in further detail in Module 4, *Using Performance Results*, decision makers and other stakeholders are generally most supportive of performance measurement systems that they have helped to develop themselves. Not only are such systems most likely to address their needs, but they are also less "threatening" by nature. Indeed, many individuals feel very threatened when a performance measurement system is introduced, fearing that "negative" performance information will lead to budgetary or staffing reductions–or even program elimination.

If managed well, in fact, performance budgeting may over time strengthen relationships between the branches of government. In Arizona, for example, the legislative fiscal office and the executive budget office have been brought into closer contact in conducting the in-depth program reviews required as part of the state's budget reform legislation.[11]

Step Two: Develop an implementation plan and timetable.

Development of an implementation plan can help smooth your transition to performance budgeting by addressing potential roadblocks, establishing clear expectations and responsibilities, and laying out a timetable to keep efforts on track. In developing such a plan, a number of jurisdictions have found it helpful to consult with both the "developers" and "users" of budget information. In Iowa, for example, the Department of Management conducted detailed interviews with all 26 department heads, surveyed 200 top officials, and conducted focus groups with legislative leaders and budget staff.[12]

The budget calendar should be an important element in your implementation plans. At a minimum, your calendar should indicate when:[13]

- Budget instructions will be provided to departments;
- Citizen input will be obtained;
- Department submissions must be completed;
- Meetings will be held with department representatives to clarify submissions;
- The draft budget will be presented to the governing body;
- The proposed budget will be advertised;
- The budget will be formally adopted; and
- The budget will go into effect.

Be realistic in establishing your plans and timetables. It is important to recognize that it takes considerable time and effort to implement successfully a performance budgeting system. Most governments devote a significant amount of time at the front end to building support and expertise. Florida, for example, has established a seven-year calendar for phasing all agencies into a new performance budgeting system. Each agency is expected to take approximately one year to define its programs and develop appropriate performance measures. "While this appears to be a long time," observes the National Association of State Budget Officers, "most states undergoing this process realize that

developing relevant measures and integrating them into the management of an agency is a change that requires both time and capacity."[14]

Smaller jurisdictions can expect to need considerably less time, although change can still not be expected to happen overnight. In Milwaukee, for example, lead time was needed in order to establish links between strategic planning and budgeting. First, a citywide strategic plan was developed in 1991. Agencies then developed strategic plans in 1993 prior to preparing 1994 budget requests under a new performance budgeting system. With some experience under their belts, the annual budget calendar–as shown in *Figure 4*–has been streamlined from what was initially required.

What will affect your timetable? The size of your jurisdiction and complexity of your budgeting process will have a significant impact on the amount of time needed. Other factors include:

- Need for legislation;
- Status of strategic planning efforts;
- Agency familiarity and experience with performance measurement; and
- Sophistication of existing data systems.

Your decision regarding whether to implement on a "pilot" or "full-scale" basis will also affect the time needed for implementation.

As shown in *Figure 5*, there are advantages as well as disadvantages to each approach; local circumstances should be weighed heavily in your decision.

Figure 4

Planning and Budget Calendar

City of Milwaukee

Date	Activity
January-March	Departments prepare plans and performance measures
March 23	Departments receive budget materials and allocations
April	Department plans and performance measures reviewed by mayor
By second Tuesday in May*	Plans and budget requests due
June 1-2, 9-10	Mayor's public hearings on plans and budgets
July-September	Mayor's executive plan and budget review
By September 28*	Plan and budget submitted to common council
October 7-28	Legislative hearings
By November 14*	Common council action on budget

* *Denotes legal deadline*

Source: Anne Spray Kinney, "Mission, Management, And Service Delivery: Integrating Strategic Planning and Budgeting in Milwaukee," *Government Finance Review*, October 1995, p. 8.

If you choose the pilot approach, your next decision will be which agencies to select. Jurisdictions have used a variety of decision criteria, including:

- *Receptivity to change:* Many jurisdictions have asked for volunteers, choosing to begin with those agencies most receptive to change.
- *Ease of measurement:* Some jurisdictions have selected departments whose outcomes are most easily quantified (e.g., fire department; police department; transportation department), hoping to gain experience before tackling departments with more difficult measurement issues. Others have taken the opposite approach, reasoning that if they can succeed with the most "difficult" agencies (social services, for example), full-scale implementation should be a breeze.
- *Size of budget:* Budget size has been used as another selection criterion. Clearly, improving the performance of your largest agencies will result in the greatest overall impact.

Figure 5

Advantages and Disadvantages of Differing Implementation Approaches

Pilot Projects

+ Provides opportunity to test and refine system
+ Can anticipate problems prior to full-scale implementation
+ Provides opportunity to build support among non-pilot departments
+ Allows for more individual assistance and attention

– Results in longer overall time for implementation
– Initiative could lose momentum
– Difficult to run two budget systems simultaneously

Full-Scale Implementation

+ Requires less overall time for implementation
+ Training and assistance can be provided uniformly for all departments
+ Creates momentum for change

– Difficult to devote significant amount of time to individual departments
– May result in costly mistakes

Source: Drawn primarily from Price Waterhouse, *Best Practices in Performance Based Budgeting*, for the Santa Clara County Office of Budget and Analysis, April 12, 1994, pp. IV-8-IV-11.

You may also consider selecting a representative sample of agencies. In designing its performance measurement pilot project, the state of Virginia chose agencies that represented all eight secretarial areas and also sought a balance of new initiatives and base budget programs.

Step Three: Provide training.

Training in performance budgeting will involve not only introducing new *concepts* to legislators, managers, and employees, but also introducing *new budget forms* that must be completed and *new procedures* that must be followed. You will need to consider the following levels of training:

1. Briefing sessions or workshops to introduce the concepts of performance measurement and strategic planning. At a minimum, both managers and policymakers should receive training on:

- The benefits of strategic planning and performance measurement;
- The strategic planning process and the mechanics of developing performance measures; and
- Information on ways to use performance information, including allocating resources, formulating and justifying budgets, performance contracting, and personnel management.[15]

In these sessions it is critical to allay any fears and misconceptions about the process. Legislative fiscal staff and agency budget analysts can be important allies.

The states of Louisiana and Arizona are among those who have supplemented training workshops with written reference materials. Louisiana's *MANAGEWARE* and Arizona's *Managing for Results* handbooks provide agencies with a solid grounding in strategic planning and performance measurement concepts.

2. Development of budget instructions and guidelines. While the introduction of performance budgeting has typically resulted in an *overall reduction* in the number of budget forms that agencies must fill out, there are usually a number of new forms required to show linkages between budgets and expected performance results. In Texas, budget instructions have been pared from 125 legal-sized pages to 35 letter-sized pages. In addition, agencies are now required to complete only five rather than 23 budget forms.[16] The city of Milwaukee has also eliminated many forms, although two new ones have been created to show links between funding, objectives, and activities.

Department managers and employees will need specific instructions on how to complete any new forms. You may also want to take advantage of new technologies to enhance your instructional efforts. Agencies in both North Carolina and Maryland, for example, can access instructional material via the Internet.

3. Ongoing technical assistance and training. Performance budgeting will be a big change for most departments–expect to provide some "hand-holding" along the way. This task most often falls to the budget office. In Texas, for example, agency budget analysts have primary responsibility for follow-through and ongoing assistance. Keep in mind that networking can also be a valuable training tool. Virginia found peer networking to be a successful component of its performance measurement pilot program.[17]

In the USA, state and local governments have taken a variety of approaches to providing training and technical assistance.

- Oregon's approach was to provide training to all agency heads as well as to volunteer co-ordinators in each agency. These co-ordinators–who also received ongoing guidance and assistance–served as mentors and trainers for others in their agencies. Two videos were developed to supplement the training efforts. The videos featured testimony from the governor, agency heads, a union leader, and line staff on the benefits of performance measurement.

- Other state and local governments have relied on outside consultants or organizations to provide much of the training required. A member of the University of North Carolina's Institute of Government, for example, launched training efforts in Chatham County, North Carolina by making a presentation to the county commissioners and department heads. This was followed by separate retreats for each group, a joint retreat, and a question-and-answer session with a jurisdiction already using performance budgeting.

Step Four: Review/develop strategic plans.

Strategic planning is a powerful tool for setting priorities and making informed decisions about the future. As such, it can provide a long-term context for annual budget decisions. The observation has been made that "although strategic planning has become popular in government in recent years, it is frequently difficult to see the connection between what a strategic plan says and what next year's budget does."[18] Performance budgeting initiatives can provide that important connection.

In Texas, for example, agency strategic plans serve as the foundation for the state's strategic budgeting system. In simple terms, an agency's appropriation request represents the cost of implementing its strategic plan over the following two years. Agencies identify costs associated with carrying out particular strategies which will help them achieve their goals, then list strategy options in order of priority. In appropriating funds to an agency, the legislature provides a lump sum for the implementation of a particular strategy, accompanied by a set of performance expectations.

In Alberta, the view is that unless the costs of achieving varying levels of results can be identified, the effect of resource changes on outcomes cannot be assessed. With managers increasingly being held accountable for results, they will need information on the resources required to maintain or improve service quality and results. Similarly, information on the cost of achieving certain levels of results will help decision makers to decide if the desired outcome

is appropriate given the costs involved. Costing outputs will link inputs with outcomes and provide decision makers and taxpayers with information on the relative cost of certain outcomes.[19]

As discussed in further detail in Module 1, *Strategic Planning*, there is no one best way to approach strategic planning. The strategic planning process can be undertaken at virtually any level–a department, organization, program, and/or the entire community (a city, county, region, or province).

Processes are often as simple as an annual retreat in which departmental staff or a city council goes away for two or three days to assess where they are, envision where they want to be, set goals, and decide among alternative strategies. On the other end of the spectrum are examples like "Oregon Benchmarks" and "Minnesota Milestones"–processes that were statewide in scope and involved complex, long-term organizational structures, staffing, and support. In between you can find numerous examples of city or countywide strategic planning processes.

Regardless of the approach, successful, *results-driven* strategic planning addresses four major questions:

1. Where are we now?
2. Where do we want to be in the future?
3. How will we get there?
4. How will we measure our progress?

Organizations that have already undertaken a strategic planning process and developed related performance measures will be ready to review and build upon these efforts. Those that have not yet engaged in planning efforts will find it helpful to do so prior to moving into performance budgeting. The treasury/finance department typically plays a major role in overseeing planning and performance measurement efforts, helping to ensure that measures are meaningful and accurately reflect the jurisdiction's priorities. Further details on strategic planning and performance measurement are provided in Modules 1 and 3 of this curriculum, *Strategic Planning* and *Performance Measurement.*

Step Five: Develop the budget and allocate resources.

Governments have taken a variety of approaches to developing performance budgets. Three of the most common approaches are described below.

1. Activity-Based Costing/Unit Cost Budgeting. A number of performance budgets are built around the concept of activity-based costing. This approach typically involves:

- Linking activities or strategies to performance outcomes;
- Prioritizing strategies;
- Identifying the costs of carrying out specific activities or strategies; and
- Budgeting based on desired levels of performance.

In the Alberta government, a two year pilot project in Activity Based Costing was undertaken by the Land and Forest Service, Environmental Protection in the Northeast Boreal Region. The project's goals were to:

- Develop a "one key in" input system;
- Develop a methodology to cost out strategies and activities;
- Develop regional performance measures;
- Determine the true cost of outputs;
- Produce activity cost analysis;
- Validate the business plan.

Several issues were identified in the implementation and expansion of Activity-Based Costing, such as the regional varability of priorities and degree of detail required at different project scales. Because of these and other issues, the pilot project has concluded and no further follow up is planned at this time.

What is activity-based costing? As shown in *Figure 6*, it is a technique for identifying the "full" costs of service delivery, including not only direct labor and material costs, but also administrative and other overhead costs.

Figure 6

Activity-Based Costing

Cost Factors	**Amount**
Salaries of dept. personnel (including taxes, unemployment insurance, pension costs, and other fringe benefits)	_____
Other direct costs (travel, utilities, materials and supplies, printing)	_____
Equipment (rental, capital outlay, interest costs, maintenance)	_____
Operation and maintenance of buildings	_____
Insurance premiums (or claims paid if self-insured)	_____
Allocated administrative costs	_____
Allocated overhead cost of other executive and staff agencies	_____
Management/supervision/oversight	_____
Other cost factors	_____
TOTAL COST OF ACTIVITY=	_____

Source: Adapted from *Privatization Assessment Workbook* (Denver, CO: Office of State Auditor, 1989), p. 25.

Sunnyvale, California's budget system is based on full-cost accounting. The city begins by determining the cost of providing certain levels of service in 300 different areas–such as road sweeping and library services. The budget then describes what level of service is going to be provided and how much money it will cost. The budget may say, for example, that the city will sweep 1,000 miles of roads and identify the cost of doing so. [20]

Similarly, Florida's Department of Health and Rehabilitative Service, the largest state agency in the USA, was an early pioneer in experimenting with "unit cost" budgeting in that state. Plans called for defining services, clearly identifying their costs, and basing budgets on achieving a desired level of service. An Office of Evaluation was established to examine what mix of services and associated costs would be necessary to achieve a specific outcome, such as reducing the incidence of child abuse. While implementation has proven to be more difficult than anticipated, the state continues to experiment with this concept.

In a variation on the activity-based costing approach, some communities simply add up the budgeted expenditures for a service to arrive at a performance budget. This is certainly much simpler than full-cost accounting, though arguably not as accurate. While few governments currently have the cost accounting system that Sunnyvale, California has, more are moving in that direction.

2. Base Budget with Performance Incentives. Another approach that governments have taken to developing a performance budget is to add performance incentives (and expectations) to a base budget allocation.

Alberta Advanced Education and Career Development has six targeted programs for post-secondary institutions in addition to the base operations grants provided. One of these programs is the Performance Envelope which rewards institutions based on progress towards accessibility, responsiveness, affordability, and for research excellence at universities. Nine measures of performance are the basis for funding which has a system-wide and institution specific component. All institutions are assessed on employment, graduate satisfaction, enrollment levels, administrative costs, and revenue partnerships. The three campus universities are also assessed on research performance which includes the level of research funding they receive from granting councils, the references to research in other publications, the development of community partnerships, and the involvement of research sponsors. Each institution is awarded points based on its performance against specific benchmarks. Total points are then used to determine funding level.

Catawba County, North Carolina's performance budgeting process began with pilot departments receiving a budget allocation based on historical expenditure patterns, as adjusted for cost of living and general revenue increases. The budget office then negotiated performance expectations with each of the participating departments. In return for meeting at least 90 percent of their performance targets, the departments are given greater spending flexibility throughout the year and can retain half of any unspent funds or new revenues generated.

The city of Milwaukee has used a similar approach. Beginning in 1994, each department received an overall budget allocation at the beginning of budget preparation based on policy priorities set by the mayor. Rather than focusing on budget cutting, budget review now focuses on assessing whether departmental plans and objectives are consistent with the city's strategic plan and whether the links between departmental planning objectives, activities, and spending are clear.

3. Program-Based Performance Budgeting. In the USA, a number of state and local governments have found that a "program" structure is well-suited to performance budgeting. In other words, expected performance is defined across broad "program" or "functional" lines (such as economic development or education) rather than departmental lines. "Program" areas represent the kinds of services that government provides.

Examples at the local level include:

- The city of Indianapolis, Indiana, which has worked within the constraints of line-items (which are statutorily required) to develop a performance-orientation to its budget. Line-items serve as the building blocks for an activity-based budget, which builds to a program budget.

- Austin, Texas, whose budget is based on 10 priority areas that cross departmental lines. The program budget is developed by examining departmental budgets and allocating relevant portions to each of the 10 priority areas.

The state of North Carolina is taking similar steps to develop its Performance/Program Budget. Prior to establishing objectives and measures, North Carolina classified all its spending into "program" areas. A "program" was defined by common intended outcomes rather than by departmental organization. For example, as shown in *Figure 7*, a program entitled "Groundwater" became the classification for six budget entities in the Department of Environment, Health, and Natural Resources (EHNR) and one in the Department of Agriculture.

The advantage of beginning with a classification of funds is that the common goals of otherwise separate units of government are revealed and addressed in the planning process. In addition, true programmatic costs and redundancies become clearer.

The next steps in North Carolina's budget process will be to:

- Identify objectives and measures related to identified program areas;
- Identify the activities/strategies that will be used to achieve the objectives;
- Identify the budget funds that support the activities/strategies so that reviewers can see the "quantity" of work purchased by the budget; and
- Display the linkages between spending, activities, and objectives.

4. Investment Budgeting. While not as common as the three methods described above, there is increasing interest in a concept known as "investment budgeting." Like performance budgeting, investment budgeting focuses on outcomes. But, while performance budgets are based on the *costs* of desired performance outcomes, investment budgets are based on expected "rates of return," assessing both long-term costs and benefits. In Texas, investment budgeting is seen as "the next logical step for Texas to take in the evolutionary development of its strategic planning and performance budgeting system." In fact, May 1995 legislation directed the Governor's Office of Planning and Budget and the Legislative Budget Board to develop a means of incorporating the concept of investment budgeting into the appropriations process for the 1998-99 biennium.[21]

Step Six: Develop supporting data and accounting systems.

More often than not, governments embarking on performance budgeting initiatives find that there is a mismatch between their budgeting and accounting systems. While your accounting system can probably tell you how much you spent on salaries or travel last month, it is less likely to be able to tell you how much you spent on a particular planning objective or strategy.

The result of this mismatch? As one observer notes, "the departments' time in determining how much to ask for in each category and the [elected officials'] debate over the appropriation amounts [are] both meaningless."[22]

How can you address this problem? The most common approach is to establish "cost centers," which essentially are separate accounts for each major strategy or activity in the budget. The accounting system can then be used to track expenses in each of these accounts.

Accounting by cost centers can help provide a *reasonably* accurate monthly accounting for *direct* spending. However, it is difficult to account "to the nickel" for a couple of reasons. First, most governments do not allocate administrative and support costs to all their objectives. Second, a given expenditure may contribute to more than one strategy or objective. And third, some expenditures may contribute to "minor" objectives which are "not worth the effort" to formally define and measure.

It is certainly possible to track expenditures for more than one budget format–coding each expenditure so that it is assigned to both a line-item category and to a separate program or performance budget category. However, the cost of maintaining dual systems (in both time and money) is only justified if the time is taken to study, understand, and act upon the linkages between spending, program activity, and outcomes.

Step Seven: Monitor performance and report results.

Once appropriations are made, periodic analysis of performance information is needed to determine whether or not program activities are on track. In designing your monitoring system you should focus on answering the following types of questions:

- Are expected results being achieved?
- Does trend data show improved performance or is performance deteriorating?
- How does departmental or program performance compare with standards, targets, or the performance of others?
- What outside factors may be affecting performance?
- What is being done to bring performance back on track?

It is particularly important to look closely at the reasons for performance differences–especially if you are comparing your organization's performance to that of others. Are you really comparing apples to apples? Differences in performance and costs can result from a variety of factors—differing levels of service, differing demographics or clientele, differences in technology, and so on.

Keep in mind that monitoring performance information will be less of a chore for everyone involved if performance reporting is integrated with any existing management information systems (MIS). As discussed in Module 4, *Using Performance Results*, one model that other governments can turn to in updating their MIS systems is the state of Minnesota's "Performance and Outcomes Reporting and Monitoring System." The system–known as PERFORMs– manages performance data from agencies on a statewide basis. It offers the ability to produce both internal and external performance reports in a consistent format. The information database is capable of maintaining at least 40 years of information, enabling a comparison of actual performance against long-term goals, objectives, and measures.[23]

In Alberta, the *Government Accountability Framework* sets out the performance reporting mechanisms and relationships.

As you move towards adopting reporting procedures, you will need to decide who needs to receive performance information, how often to report this information, and what specific information to report. As emphasized in Module 4, *Using Performance Results*, it is important to recognize that not all performance information will be useful to all users and decision makers. For example, what a line-manager finds useful will be significantly different from what an elected official will find relevant. And, while a line-manager may need to review performance on a monthly or quarterly basis in order to make mid-year program improvements, elected officials' needs are often met by annual reporting. Because different audiences have different information needs, reporting procedures will need to be tailored accordingly.

Step Eight: Act on results.

It is not enough simply to undertake performance measurement activities–performance information must be used in order to be of value. Incentives (or "rewards") are often provided to encourage agencies to use performance information to improve service delivery. As shown in *Figure 8*, potential rewards range from increased agency funding to expanded agency responsibilities.

Unfortunately, linkages between the budget and performance are often not straightforward. In other words, an agency that fails to meet its performance goals may be dealing with a particularly intractable problem and not merely suffering from poor management. Reducing funding as a sanction for "poor performance" may move the agency even further from its goals.

In order to address this situation, management should be given the opportunity to provide explanatory information as part of the performance reporting process. Reasons for "poor" performance should be examined by budget officers and decision makers prior to taking action.

Figure 8

Potential Rewards and Sanctions

Rewards

- Increase agency funding overall
- Increase budgetary flexibility
- Exempt agency from certain reporting requirements
- Allow agency to retain any cost savings
- Publicly recognize agency for its achievements
- Provide employee bonuses
- Expand agency responsibilities

Sanctions

- Order a management audit/develop a remedial plan
- Reduce or restrict agency funding
- Withhold or eliminate agency funding
- Cut director's salary
- Transfer agency responsibilities
- Place an agency in receivership by replacing managers or creating an oversight body

Source: Adapted from Karen Carter, The Performance Budget Revisited: A Report on State Budget Reform *Legislative Finance Papers #91* (Denver, CO: National Conference of State Legislatures, February 1994), p. 6.

Implementation Challenges

Implementation is not an easy task. Many state and local governments have taken steps to include performance measures in their budgets. In fact, the National Association of Budget Officers reported in 1995 that 30 states and the Commonwealth of Puerto Rico were already including some type of performance measures in their budget documents. However, studies have found that performance measures have been used more frequently to improve management than to allocate resources. In most cases, resource decisions continue to be driven by traditional budgeting practices.

What challenges lie ahead?

First, don't be surprised by resistance. A budgeting system that has been in place for a long time will generally be favored by policymakers as well as department heads–it is both understood and predictable. Some of the following concerns may surface:

- Elected officials may resist relinquishing control over line-item expenditures. Performance data is particularly likely to be ignored where it is used as an "overlay" rather than replacement for line-item data.[24]
- Managers may feel overburdened already and dread the additional chore of data collection. This is particularly likely where past data collection efforts have been "paper generators" rather than useful management tools. In these cases, there may be skepticism about whether elected officials and other key decision makers will actually use the data.
- Other managers may fear that the data *will* be used (or "misused")–to reduce budgets, to eliminate staff, or in other negative ways.
- Elected officials may fear that data will be misinterpreted by the public and used against them at the polls.

Implementation Tips

What can you do to help realize the full potential of performance budgeting?

- Help elected officials and managers understand the importance and benefits of performance budgeting, but don't oversell the process–recognize that difficult budget decisions will still have to be made;[25]
- Involve elected officials as well as managers in the design of the budgeting system and the development of plans and measures, maintaining effective communication throughout the process;
- Provide incentives, not just punishments, in return for accountability. Address the fear that performance measurement is merely a tool for budget cuts and staff reductions;
- Establish a realistic implementation timetable, recognizing that it may take several years to refine performance data to the point that they are "reliable enough for budget and management control purposes."

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[4] Anne Spray Kinney, "Mission, Management, And Service Delivery: Integrating Strategic Planning and Budgeting in Milwaukee," *Government Finance Review*, October 1995, p. 7.

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[6] Budget Preparation and Enactment, *County Government in North Carolina*, p. 173.

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[9] Congressional Budget Office, *Using Performance Measures in the Federal Budget Process* (Washington, DC: CBO, July 1993), pp. 26-27.

[10] Alberta Treasury, *Measuring Performance* , A Reference Guide, September, p. 32

[11] National Association of State Budget Officers, *Restructuring and Innovations in State Management*, April 1996, p. 27.

[12]Price Waterhouse, pp. IV-4-5.

[13] James L. Cavenaugh and John M. Koelsch, "Strategic Budgeting." *MIS Report*, Volume 25, Number 8 (Washington, DC: International City/County Management Association, August 1993), p. 4.

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[23] Charlie Bieleck, Minnesota Dept. of Finance, Presentation at the *Managing for Results* conference, Austin, Texas, November 1, 1995.

[24] US General Accounting Office, p. 5.

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Module 6

CONTRACTING FOR PERFORMANCE

Module 6

CONTRACTING FOR PERFORMANCE

An Overview for Workshop Participants

Alberta
GOVERNMENT OF ALBERTA

Module 6: Contracting for Performance

An Overview for Workshop Participants

Introduction

Contracting out the provision of "government" services is not new. But what *is* new is the number and type of functions which are being opened to "outside" competition.

The Alberta government has transferred some services to various third party service delivery agents. The government prescribes the policies and standards to be followed by third party agents, and contracts with these organizations to deliver certain government services.[1] The government is still ultimately accountable to the public for ensuring that services delivered by third party agents are being adequately provided.[2]
For example, the Minister of Education is the Legislature's and Government's agent for education matters, and is accountable to the people for the education system, even though education programs are delivered by local school boards.

Alberta Environmental protection has created Delegated Administrative Organizations. These organizations are arms length responsible to the Minister of Environmental Protection, committed to meeting certain objectives. The department has developed an accountability framework and a DAO Evaluation Workbook to help managers monitor the activities and accomplishments of DAOs, consistent with department and government goals and perfromance expectations.

Experiences in other jurisdictions cover a wide range of services:

- Over 15 years ago, the city of Phoenix, Arizona introduced competitive bidding in the solid waste division of its public works department. Since that time, the practice has spread to include services ranging from airport landscaping to low-income housing.

- In fiscal year 1996 alone, the state of New Jersey privatized medical services in correctional facilities, adult activities centers, day-care centers, motor vehicle agencies, janitorial services in the state house complex, and a managed care health plan for Medicaid patients.

As in Phoenix, the use of contracting among local governments has moved far beyond the traditional procurement of engineering services or the letting of street resurfacing contracts. In fact, as shown in *Figure 1*, a recent survey suggests that local governments' use of contracting is skyrocketing in areas ranging from janitorial services to data processing.

Similar trends can be seen at the state level, with privatization becoming particularly popular in the areas of mental health, social services, and transportation. From the Governor's Commission on Privatization of Government Services in Georgia to the Governor's Council on Management and Productivity in Maryland, many states have formed commissions to study the privatization of state services. Perhaps most telling are the results of a 1993 study, in which over 85 percent of state auditors, budget directors, and controllers predicted increased privatization over the coming five years.[3]

Why are Governments Turning to Contracting?

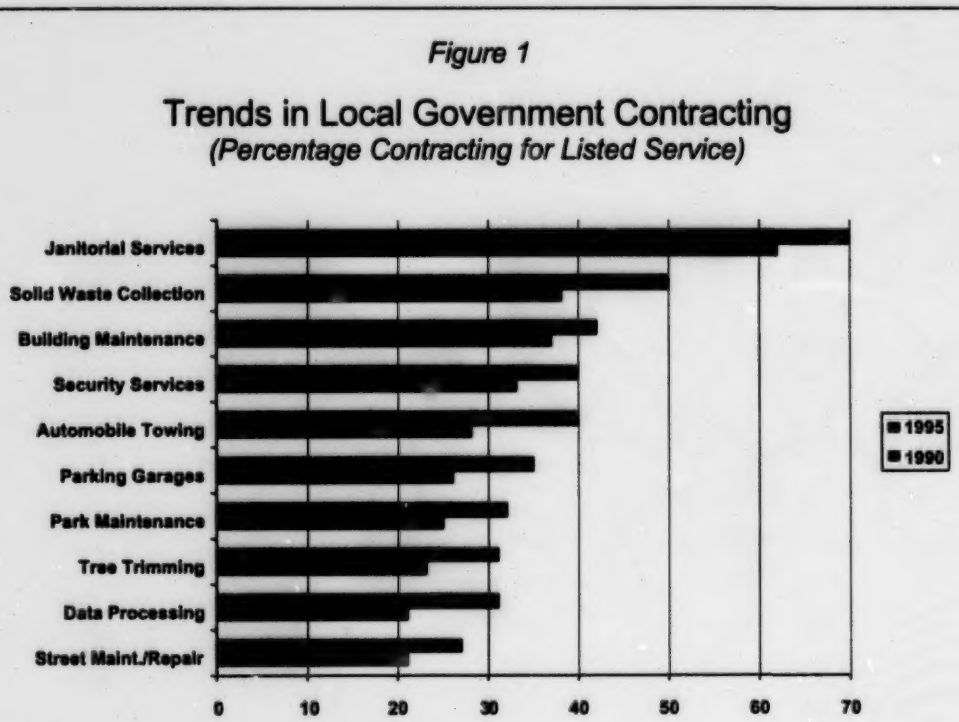
The primary lure of contracting is the potential for saving money. Over 90 percent of the 1,400 cities and counties responding to a 1992 survey by the International City/County Management Association indicated that fiscal pressures had prompted their privatization efforts.[4]

Although cost savings are not guaranteed by contracting out, a number of states and localities have achieved significant savings. The city of Indianapolis, for example, cut more than $100 million from its budget over three years, attributing much of the savings to the introduction of competition in the provision of its municipal services.

Other reasons for the increased interest in contracting include the potential:

- To reduce the size of government;
- Gain access to specialized skills and/or equipment;
- Improve service quality and productivity;
- Achieve greater flexibility; and
- Gain economies of scale.

Figure 1



Source: The Mercer Group, 1995 Privatization Survey.

It is important to recognize that many of these potential benefits are the result of competition, not "the magic of the private sector." Phoenix, for example, takes pains to describe its process as "managed competition," not "privatization." Rather than simply turning over the city's business to private firms on the assumption that they can do the work better or cheaper, Phoenix offers private firms and city employees the opportunity to compete to win the right to deliver certain services. Of the 56 service delivery decisions the city has made since 1979, 34 have gone to the private sector while 22 have remained in-house. An added benefit of this process? Phoenix has found that it

establishes efficiency and customer satisfaction as important values, helping to influence positively expectations about government and gain public support.[5]

Potential Problems

Despite the potential promise, contracting is not always a positive experience. Cost savings don't always materialize, contractors don't always produce quality work, and the impact on public employees can be especially severe. Virtually every major city in the United States has experienced problems with contracted services ranging from simple service interruptions to outright fraud, and newspaper headlines are quick to trumpet these examples of privatization arrangements gone bad.

Clearly there is a big difference between entering into a contract with an outside vendor and contracting for performance with confidence that the desired results will be achieved. Incorporating performance measurement into contract bidding and monitoring procedures allows governments to control the risks and help assure the quality of services to their citizens.

In Alberta, contracting out has been initiated for a number of services, both with the provincial government and municipalities. Evaluation of performance indicates variable results.

What is Performance-Based Contracting?

Most governments already include performance specifications in their contracts. But, more often than not, these specifications detail how many job training sessions are to be held or the types of equipment that are to be used in road repair. While this type of information can play a role in contract monitoring, it tells you little about program results and quality. Of more value are measures that tell you whether or not desired results are being achieved. In other words, are students obtaining employment and increasing their earning capacity following completion of the contracted job training program?

Just as governments are discovering the value of outcome-oriented performance measures as a tool for internal improvement, they are also discovering the value of such measures in contracting. For example, in 1991, Tennessee's Bureau of Alcohol and Drug Abuse Services began evaluating its contractors based on the results they produced, not just the activities they provided. Whereas nonprofit agencies running programs for at-risk youth once promised a certain number of school assemblies (output measures), they later became responsible for demonstrating reductions in failing grades and truancy (outcome measures).

Performance-based contracting requires that government determine exactly what it needs to accomplish and to establish standards of performance and quality that become part of the contract. With those expectations clearly spelled out, the competition between multiple vendors assures that the government can demand and achieve the quality of service it desires. Many times, the process of defining performance expectations for a bid invitation or request for proposals (and developing good performance measures to monitor the contract) leads to improved service quality even if you opt not to contract for the service.

At its best, performance-based contracting is just plain good management:

- The analysis required to contract for performance gives managers the information they need to make good decisions.
- It provides incentives and opportunities for change, where change is needed. Management and labor practices grown stale and outdated often require some driving force to provide the impetus for change. Considering contracting out a service, or introducing competition and performance measures, provides just such an impetus.
- Performance contracting demands that performance standards be created and often introduces performance

measures where none existed previously. Introducing these accountability mechanisms improves communication of expectations to persons doing the work, while also forcing decision makers to decide precisely what they want a program or service to accomplish.

Is Contracting Right for You?

Contracting can lead to great results, but it is not a panacea and it is not right for every environment. Successful contracting requires:

- **Time for careful planning and execution.** It is not necessarily the solution to an emergency.
- **Agreement among top officials about program goals and objectives.** It might not be right in an environment where leadership is deeply divided on such issues.
- **Good management skills from within government.** It might not be a good option where talented management is scarce.

In any case, the approach you take to contracting must be adapted to your own culture, political environment, and management capabilities, not just imported from somewhere else. The city of Phoenix, one of the leaders in competitive contracting, notes that while its experiences may serve as a useful starting point for another locality, its process was developed over 15 years of trial and error. Localities with different organizational cultures, governing bodies, and labor relations histories will need to develop their own unique approaches.[6]

Implementation Steps

Successful performance-based contracting begins when you can assure three things:

- You know precisely what you want to accomplish;
- Those desired outcomes can be effectively achieved by a variety of providers–not just government; and
- You can assure results and accountability through careful negotiation of contract language and professional monitoring of the contract.

Key steps include the following:

Step One: Identify appropriate services for competitive contracting.

Any service is potentially a candidate for contracting, but some of the most common ones in the USA or across North America are:

- Professional Services (e.g., Auditors, Compensation Analysts, Graphic Designers, Engineers, or Lawyers)
- Information Technology: support and systems development, software customization and installation
- Collection Services (e.g., Taxes or Child Support Enforcement)
- Employment Training or Retraining
- Management of Public Facilities (e.g., campgrounds or convention centers)
- Property Management
- Surveys and Forecasts
- Transit System Operation and Maintenance
- Janitorial Services
- Drug/Alcohol Abuse Treatment Centers
- Solid Waste Collection and Disposal
- Street Repair, Roadway and Bridge Maintenance and Construction
- Security Services
- Worker's Compensation Claims Management
- Fleet Management/Vehicle Maintenance
- Food Services (e.g., in Parks, Prisons, or Museums)

- Groundskeeping and Snow Removal
- Laundry Services
- Community-Based Counselling and Family Violence Shelters
- Pest Control
- Effluent Removal
- Office Equipment Maintenance
- Prison Construction and Management

Selecting the services that are ripe for competitive contracting in your organization, municipality, or community will require careful study and analysis, encompassing four major steps:[7]

1. Identifying all existing services;
2. Using a checklist or other analytic tool to identify the best potential candidates for contracting;
3. Conducting in-depth feasibility studies of these candidates, including a detailed look at costs, personnel, and other important issues; and
4. Regularly reviewing and updating your analysis to take into account changing conditions and needs.

A sample of a decision checklist that the state of Colorado uses to identify contracting candidates is included as *Exhibit 1* at the end of this *Overview*. In developing your own checklist, you will want to consider some of the following factors:

- Potential for cost savings
- Political resistance
- Availability of potential contractors
- Complexity of service
- Impact on service quality
- Equity
- Impact on public employees
- Legal barriers
- Potential for service disruption and other risks
- Impact on other government services
- Ease of contract administration
- Long-term effectiveness
- Experience of other jurisdictions

Special consideration should be given to issues or concerns that are unique to your organization or community. For example, the weight you place on each of the factors may depend on your fiscal status, political climate, the degree of unionization among employees, the type of service being considered for contracting out, and the possible downside risks of turning over the service to a non-governmental entity.

Who should be involved in making contacting decisions? Many jurisdictions and localities have established high profile commissions to study opportunities for competitively contracting for services. Most share a focus on introducing competitive processes and developing performance standards to which either governmental departments or outside contractors can be held accountable.

The city of Philadelphia's Competitive Contracting Committee, for example, identifies potential areas for competitive contracting and establishes procedures and guidelines for analyzing and pursuing a competitive contracting process. Florida's Council on Competitive Government is a similar vehicle at the state level.

While this type of organizational focal point provides a high profile for the effort, it is by no means necessary to successfully pursing competitive contracting. The most important point to recognize is that high levels of communication and inclusion result in coalitions of support for decisions, as well as in more informed decisions. It is never too early in the process to involve citizens, clients, employees, union representatives and outside experts. Broad

participation can help raise awareness about issues related to service quality and cost, build employees' capacity to identify "in-house" improvements, and ensure that analysis is fair and accurate.[8]

Step Two: Determine the full cost of in-house service provision, as well as the avoidable costs if a service is contracted out.

Getting a handle on costs is one of the biggest challenges of moving to competitive contracting. Although the most common reason that governments contract out is to save money, survey data suggests that fewer than half of those making privatization decisions have established procedures for making accurate cost comparisons between government and private providers.[9]

The first step toward making an accurate cost comparison should be to calculate in-house service delivery costs. This is not as easy as it sounds. You may know what the total Parks and Recreation budget is for community sports, but you are less likely to know what it costs to mow the grass in a city park or maintain sports fields and facilities. Yet, you must be able to get this information in order to answer any of these key questions:

- Are we paying a fair price for the service we are getting?
- How do our costs compare to those of comparable organizations?
- Can we save money if we place this activity out for open bid?
- Can we afford the level of performance quality that we currently expect?

Activity-Based Costing (ABC) is a technique that captures the "fully loaded" costs of delivering a specific service or product. Life cycle costing is a related costing approach which looks at all costs associated with the purchase, use and disposal of a piece of equipment. For example, the life-cycle costs of a computer printer would include the original purchase price, plus the ongoing maintenance costs and supply of ink. As shown in *Figure 2*, the full cost of "in-house" service includes not only direct costs such as wages, benefits, equipment, and supplies, but also administrative and other shared overhead costs. These shared costs are typically allocated to various activities or programs in proportion to their budget or staff size.

Figure 2

Analysis of In-house Costs

Cost Factors	**Amount**
Salaries of dept. personnel (including taxes, unemployment insurance, pension costs, and other fringe benefits)	_____
Other direct costs (travel, utilities, materials and supplies, printing)	_____
Equipment (rental, capital outlay, interest costs, maintenance)	_____
Operation and maintenance of buildings	_____
Insurance premiums (or claims paid if self-insured)	_____
Allocated administrative costs	_____
Allocated overhead cost of other executive and staff agencies	_____
Management/supervision/oversight	_____
Other cost factors	_____
TOTAL IN-HOUSE COST =	_____

Source: Adapted from *Privatization Assessment Workbook* (Denver, CO: Office of State Auditor, 1989), p. 25.

While activity-based costing can provide you with a clear picture of in-house service delivery costs, it does not provide the entire picture necessary for making decisions about contracting out services. Why not?

First, all of the costs associated with government provision of a service will not be avoided by contracting out. Unless outsourcing a certain service results in a significant reduction in your workforce, for example, it is likely that you will continue to need the same number of administrative workers to process your payroll checks. And, unless the outsourced service occupied an entire building that will no longer be needed, it is likely that your building, utility and maintenance costs will remain roughly the same. For this reason, it is recommended that avoidable costs rather than full costs be used when analyzing the likely cost savings of contracting out an activity.

HINT: Near the end of an equipment replacement cycle is a good time to do this type of cost analysis. Contracting out for an activity at this point will allow government to avoid the capital costs of equipment replacement.

There is a second reason why in-house costs cannot be compared directly to private sector bids. The bid amount, in fact, is not the only cost involved in private service delivery. In addition to the cost of the contract, you must also consider start-up or transition costs, such as developing the invitation to bid or request for proposals, bid analysis and selection, contract development, and compensation for any government employees who are terminated; the costs of contract administration and monitoring; as well as support costs provided to the vendor such as space, equipment, or use of government staff to field questions or complaints. There is at least the potential for incurring one more additional cost. If the contracting arrangement doesn't work out there will be costs associated with bringing the service back in-house. As more services are contracted out, some organizations are finding the experience to be less than satisfactory. For example in the area of information technology, an 1997 Information Week article noted that many organizations are finding that "outsourcing hasn't lived up to its promise". Because of their negative experiences, some firms are canceling contracts and trying to rebuild their in-house structures. In response to such experiences, increasingly, procurement professionals, aware that there is a risk that the contracting out might not work, are advising organizations to take into account the potential costs of having to repatriate services contracted out in making such decisions.[10]

Figure 3

Analysis of Contracting Costs

Cost Factors	**Amount**
Start-up Costs	_____
Primary Contracting Costs	_____
Contract Oversight Costs	_____
Contract Support Costs (space, equipment, or other support provided)	_____
Subtotal =	_____
Minus New Revenues (taxes, fees, disposal of assets)	_____
TOTAL CONTRACTING COST =	_____

Source: Adapted from *Privatization Assessment Workbook* (Denver, CO: Office of State Auditor, 1989), pp. 27-29.

In the final analysis, the actual cost savings of contracting out a service will be:

Avoidable Costs - Total Contracting Costs = Cost Savings

In order to make an accurate comparison, make sure that in-house costs and contractor's costs are based on the same performance standards and requirements.

> **HINT:** Establish costing policies for the organization to ensure that cost analyses use consistent information over time. For example, careful analysis should go in to assigning indirect costs to activities and departments. Once this analysis has taken place, the use of the resulting allocations should become policy.

Step Three: Prepare solicitation documents and define performance expectations.

There are two major types of contracts used in the public sector: *competitively bid* contracts and *negotiated* contracts. Competitive bidding starts with the "invitation to bid (ITB)" in which the government entity sets the bid specifications, offers the bid to the public and selects the vendor submitting the best bid (by law usually the lowest responsive, responsible, or cost effective bidder). The bid specifications, functional design or combination of both are *very* specific and structured by government, and essentially make up the final contract. The only major difference between contractor's bids will be cost, and there is little to negotiate at this stage. Competitive bidding is most common in services that are labor-intensive, discrete, easy to quantify, and have large economies of scale. Services that are frequently competitively bid are waste management, public utilities, and transportation.

The other major type of contract is negotiated. Contracts are negotiated when there are special needs to be met by a service, a high degree of professional skill is needed, or the unique abilities of individuals are key. Negotiated contracts typically begin with a Request for Proposals (RFP). Proposals are invited for solutions to a set of requirements (functional or design or a combination of the two). RFPs have less structured requirements than competitive bids. As a result, there is likely to be much more variation between contractor's proposals. Although competitive bidding is becoming more common in an era of scarce resources, negotiated bidding is still the most common way to award human service contracts and professional services. The RFP process provides a starting point for the negotiating process by requiring vendors to state their respective positions.

In developing a plan for soliciting bids or proposals, ensure that you are proceeding in accordance with the policies of your organization. If you work in a ministry, and are contracting for supplies including certain IT services, you will be guided by Schedule 12 of the Government Organization Act. If you are contracting for services, the recently approved Accountability Framework applies. Either way you also need to ensure you act within the parameters of the Internal Trade Agreement regarding ensuring that out-of-province business are able to submit bids or proposals. More information on the Agreement and over general information on procurement policies in the Alberta government can be found at Public Works and Supply and Services' website at http://www.gov.ab.ca/~pwss/its/how2sell/. Your Finance or Administration staff can also tell you what policies and procedures apply in your circumstance.

General information on best practices in procurement and other resources can be found at the MERX website. MERX is an online bulletin board of listing of major federal and provincial government invitation to Bids or RFPs. In the Marketplace section [http://www.merx.cebra.com/marketing/market/index.htm] of MERX, you can find links to recent articles on RFPs and procurement practices and to organizations in this field offering training.

You Can't Get What You Want Unless You Know What You Want

One of the most challenging–but critical–tasks in contracting is adequately describing the scope of work in solicitation documents. It has been noted that "a well-written scope of work can do more for the success of a contract than any other part of the contracting process."[11] Vague or otherwise poorly written specifications, on the other hand, can make later enforcement and administration of the contract difficult and/or costly.

There are three things to keep in mind as you begin this process:

- There must be **consensus** among management staff and elected officials regarding **program objectives** and **performance measures.** A good contract cannot contain internal contradictions or vague language about what is to be accomplished. If consensus at the top is lacking, this may not be a good time to pursue contracting.

- Those objectives are not necessarily achieved best by duplicating what the government has done in the past. As shown in *Figure 4*, specifications should **define what must be accomplished, but not necessarily *how* it must be accomplished.** Further details on developing appropriate performance measures can be found in Module 3, *Performance Measurement.*

- **Involving stakeholders** in the development of program objectives and writing specifications will not only help ensure that you adequately describe the requirements of the job, but will help you establish the coalition of support that is necessary to keep the process moving forward. Phoenix, for example, has had success with using customer focus groups to help operating managers identify quality results.

  It is wise to invite client representatives, employee representatives (including union representatives if applicable), and experts in the provision of service (e.g., executive director of an organization that is involved in contracts for similar activities) to serve on a team to review and establish program specifications. Keep in mind, however, that those involved in writing specifications should have no financial or other interest (e.g., family relationship or potential job if contract is awarded) in the contract. At a minimum such an interest presents the appearance of a conflict of interest. At worst, such a conflict could unfairly bias the selection process and cost the government dearly in reputation, cost of the contract, and potential lawsuits from other vendors.

Figure 4

Performance Specifications

In its mowing contract, the City of Indianapolis specifies that:

- The grass should kept at less than eight inches in height. (OUTCOME)

*It does **not** specify:*

- How often the grass should be mowed (PROCESS)
- What type of equipment should be used (INPUT)

Why?

- Need for mowing varies with the weather. Why mow every six weeks if it is not needed?

In addition to setting forth performance expectations, solicitation documents should include:[12]

- The purpose and objectives of the services to be contracted
- The nature and extent of services to be contracted
- Time-frame for work to be completed
- Information to be submitted on bidder's/proposer's financial status, and technical and managerial qualifications, including references, approach, proposed personnel and their qualifications, equipment and its condition
- Special requests for information on certain key issues (e.g., plan for minimizing displacement of current public employees)
- Reporting and monitoring requirements
- For competitively bid projects, the standard of award (e.g., low bid, lowest responsive and responsible bidder, lowest and best bid) and whether discretion to award is restricted by law—or, for requests for proposals, evaluation criteria and the scoring process required under procurement policy
- Anticipated schedule for decision making and how bidders/proposers will be informed of the decision
- Information on payments, audits, termination, dispute resolution, penalties, bonding, and insurance requirements.
- Status of submitted documents vis-à-vis freedom of information legislation
- Where, when, and how bids/proposals are to be submitted
- Procedures for handling inquiries
- Type and amount of any required bid guarantees
- Format for bid or proposal response
- What costing information is required

HINT: Never allow a single potential vendor to have undue influence on the writing of specifications. Specifications should be written broadly enough to assure that multiple vendors can bid on the contract.

Step Four: Identify potential contractors and solicit bids or proposals.

Whether requesting bids, proposals, or qualifications, you will follow approximately the same procedures, including:

1. Identifying potential contractors;
2. Advertising; and
3. Answering questions.

Identifying Potential Contractors

Competition is critical to realizing the benefits of competitive contracting. How can you help ensure that you will get a good response to your request for bids or proposals? First, make sure that you cast your net widely. The label "privatization" that often gets used when government contracts work out has led many to think that only the private sector firms make good candidates for performance-based contracting. Not true! The list is much longer, including:

- Private Sector Businesses;
- Non-profit Organizations (NPOs)--sometimes referred to as volunteer or non-government organizations;
- Other units or levels of government; and
- Your own employees, including unions!

Make sure that you consider a variety of service delivery options and select the best approach for your particular situation. The contracting approach that is right for solid waste collection may not be the right approach for pre-natal counseling, for example. You may decide to:

- Contract with a single firm or nonprofit organization;
- Contract with multiple firms or organizations;
- Contract out part of a service and retain the remainder in-house;
- Contract out only capital programs; or
- Contract out only management.

About NPOs: As the name implies, non-profit organizations do not exist to make a profit, but to perform some kind of service or to fill an unmet need. They are often formed to address social problems such as homelessness, illiteracy, poverty or unemployment and have close ties to clients at the grassroots level. In Canada, there are over 175,000 non-profit organizations. Of those, over 75,000 are charities, able to issue tax receipts for donations. In the US, as a result of their experience in addressing societal problems, NPOs have become an important part of human service provision in the, accounting for 80 percent of all state and 78 percent of all county human services contracts.[13]

Other Units of Government: Other units of government might be successful contractors as well. For example, the bus maintenance division of the local school district might be a likely candidate for bidding on a city's fleet maintenance contract. In Alberta, this is happening both between ministries within the provincial government and across municipalities. For example, under the shared services initiative, Alberta Treasury now provides human resource services to two other ministries; Alberta Labour and Executive Council. At the municipal level, the Town of Bruderheim, contracts with the neighbouring County of Strathcona for the management of its municipal services. This two year old arrangement was recognized by the Fraser Institute in 1998 as representing an innovative way to save money in government.

Your Own Employees: Don't overlook your own employees as you search for potential contractors. Since it is your employees' jobs that are at stake, they have a strong interest in submitting a competitive proposal. Besides, who knows the work better? Initially, technical assistance may be needed to help government employees make the step towards competition. The city of Charlotte, North Carolina, for example, conducts competitiveness workshops for its public agencies; topics range from full cost accounting to productivity improvement.

How does this translate into developing a list of potential bidders? While you should continue to develop and maintain a list of vendors to which you routinely mail RFPs or ITBs for specific types of services, always seek to reach new potential vendors. Contractor's associations, directories of business and nonprofit enterprises, directories of minority business enterprises, chamber of commerce listings, and even the yellow pages are good sources for mailing lists, as are recommendations from organizations or governments that have contracted out for similar services.

You also have the option [and in some circumstances, must] post your RFP or tender documents on the MERX [www.merx.cebra.com] system, the online bulletin board of tenders and RFPs, mentioned earlier to ensure you reach the maximum number of qualified contractors. The MERX system displays the following Alberta information:

- notices and tender documents for most goods over $2,500 acquired
- centrally through Alberta Public Works, Supply and Services
- notices and tender documents for services over $100,000
- notices only for construction projects over $100,000
- contract award information
- general Terms and Conditions of purchase information/messages of interest to Alberta vendors.

You may also want to explore and address factors which limit the number of vendors interested in bidding on government contracts. The following factors pose problems for non-profit or small and minority contractors in particular:[14]

- **Payment procedures.** Paying contractor bills as quickly as possible and permitting more frequent billing can help reduce the potential for cash flow problems among small contractors or non-profit organizations. You might also encourage or assist potential minority contractors to apply for small business loans, including those loans oriented toward minority businesses.
- **Paperwork.** Use plain language to set out job specifications, and keep the paperwork as brief as possible.
- **Bonding costs.** Attempt to help with, or alleviate any bonding costs such as bid and performance bonds. At a minimum, provide technical assistance to help businesses find the least expensive bonding organizations.
- **Contract size.** Small businesses are often unable to bid on contracts for large government jobs. It is helpful to break the contract into smaller segments in order to encourage more competitors. For example, contracts for building maintenance can be issued for a single building rather than for all buildings owned by the government. Contracts for roadside mowing or for garbage collection can be divided into several geographic districts. Letting smaller contracts also has the advantage of being able to compare the quality of service being provided by multiple vendors.
- **Bid/Proposal format.** Some have found that the glitz of proposals from well-heeled consulting firms can outweigh the substance of the proposal. Evaluation teams can be swayed by the attractiveness of full-color documents filling three-inch binders. These types of proposals are time-consuming to peruse as well as disadvantageous to small businesses. For that reason you may want to specify and limit the information to be submitted, and define the simple style in which it is to be presented.

Advertising

Advertising is not always legally required. If it is not, you may get equally good results from a thorough vendor list or electronic posting.

In cases where you do advertise, the advertisement should contain:

- Name of your agency;
- Description of target service;
- Place to obtain complete RFP or bid information;
- Place, time and date of any pre-bid or pre-proposal information workshops;
- Place, time, and date of bid opening or proposal deadline; and
- Details such as the right of the agency to reject all bids.

Answering Questions

A pre-proposal or pre-bid information workshop or meeting provides an opportunity to respond to questions, offer additional information that has become available, and provide a tour of relevant facilities. If conducted with enthusiasm, it also provides an excellent opportunity to heighten vendors' interest in the contract. Attendance at the information workshop can be made either optional or mandatory, depending on how critical you feel the workshop is to gaining a clear understanding of the project.

Throughout the bidding and proposal process, one of the most important points to remember is to keep the process as **fair, open, and transparent** as possible. It is common, for example, for flaws in the RFP or ITB to come to light in information workshops, necessitating an addendum to the solicitation document.

Remember, any addenda must be sent to all entities that received the original document. Other points that will help ensure fairness include:

- Ensure that there is a wide distribution of invitations to submit proposals or bids.
- Do not grant exceptions or waivers to bid or proposal requirements unless that same exception is granted to everyone with adequate notice.
- Limit contact with potential vendors. Information or clarifications provided to one must be provided to all.

- Hold a public bid or proposal opening at the date, time, and location advertised. Record all responses that were received at that time. Do not accept responses received after the advertised deadline.
- Maintain complete records of all who have received the RFP or ITB so that any necessary addendum can be sent. This will also serve as a list of vendors to notify of future contracting opportunities.

HINT: Bids or cost estimates submitted by your employees should be independently verified to assure fairness in the process. It is also important to hold your employees accountable for the costs and proposals they submit if they are awarded the contract or retain the service in-house.

Step Five: Evaluate bids or proposals and award contract.

Within a short time of your advertisement or other notice, "the word will be on the street." You may be deluged with calls, mail, faxes, personal visits.

Be prepared to answer queries concerning the eventual winner of the contract. In the case of a invitation to bid, or call for tenders, there is often a public bid closing ceremony where the names of bidders and the amount of their bids are disclosed.

Initial Screening

The first step is to screen out bids or proposals that are incomplete or unacceptable. Bids can typically be eliminated only if a determination is made that they are not "responsive" and "responsible." What does this mean? [15]

- *Responsiveness* refers to the respondent's compliance with all the requirements of the bid/proposal process and solicitation. In other words, was the bid or proposal submitted on time? Does it include all requested information? Is the response in the required format?

- *Responsibility* refers to the respondent's ability to do the work called for in the solicitation. Most importantly, does the bidder or proposer have the ability, capacity, skill, and financial resources to perform the work or provide the service required–and within the time specified? Has the proposer or bidder performed quality work on previous contracts? Have they fully complied with any bonding requirements?

A qualification checklist can be used to help perform this initial screening. (Note that in some cases, potential bidders are "qualified" prior to the submission of bids by having met benchmarks at a formal pre-qualifying evaluation of their processes and/or products.)

The screening process for proposals often goes beyond that required for bids in order to reduce the responses to a manageable number for more in-depth review. The selection process typically begins with the formation and training of an impartial committee to screen and evaluate proposals and to make an award recommendation to the governing body.

Who should be involved? You may want to consider some of the following:

- A representative of the department that is to award the contract (if the department is not also bidding on the contract);
- A representative of the department that is to use the service provided;
- A representative of the budget/finance department;
- Purchasing officer;
- An individual with relevant technical skills;
- Clients of the service to be contracted out;
- Citizens or advisory committee members;
- Community leaders; and
- Executive directors of non-profits.

In addition, purchasing officials and legal counsel are often included in an advisory capacity.

Evaluating Bids and Proposals

Once the initial screening is completed, bid evaluation is relatively straightforward. The award typically must go to the qualified bidder offering the lowest price or the most cost-effective bidder, according to pre-established criteria.

Evaluation of proposals is much more complex. After an initial screening, you may find that further information is needed in order to develop your "short list" for final consideration. This may be accomplished in a number of ways, but an interview process is among the most effective. The firms to be interviewed should be notified in writing of the time and date of the interview and asked to bring any key personnel to aid in answering your questions or concerns. Once the interviews are completed, you should be in a position to make an award recommendation or to forward a final list of two to three candidates to the decision makers for a final presentation.

Evaluation of proposals should focus on rating each of them on criteria or factors such as the following:

- *Project understanding.* Does the proposal demonstrate an awareness of client needs? Does the proposer appear to comprehend the scope of services? To what extent does the proposal address the agency's priorities and objectives?
- *Quality of work.* Based on past performance and/or personnel qualifications, what is the likely quality of the work? What is the technical education, training, and experience of the personnel to be used on this project? What is the firm's past experience on projects of this nature? What do references say about their experiences with the proposer? How much of the firm's or organization's business is with "repeat" customers?
- *Organizational capacity.* Does the firm or organization appear to have the capacity to take on a project of this size? Have they done projects of this size in the past? What are their current commitments to other projects?
- *Adherence to proposal requirements.* Has the proposer complied with proposal requirements, such as providing all documentation, addressing equal employment opportunity considerations or setting out a plan to minimize displacement of current government employees? As noted earlier, a summary of the criteria and their related weightings to be used in the evaluation of proposals should be included in your RFP documents so proposers know what your decision will be based on.
- *Project Approach.* What sets the firm apart in terms of original thinking and analysis of this project? How does the firm plan to organize the project? What is the firm's management plan and project schedule.
- *Project Budget.* What cost control techniques will be used? What has been the past relationship between the firm's cost estimates and its actual project costs? What has been the firm's past record in regard to the percentage of change orders versus the original contract amount? Will the firm be financially responsible for errors or omissions made on the project?
- *Provincial/ Municipal Familiarity.* How familiar is the firm with the project, clients, and regulatory requirements?

Although some communities use point systems when evaluating proposals, this is not always required. Keep in mind that rigid systems may limit discretion to emphasize or reward important qualifications. The criteria you select and the relative weightings you assign to them form the decision model you will use to rate each proposal and make the decision as to which, if any, to accept. Such models can be constructed on paper if they are relatively straight forward or for more complex or crucial decisions by using decision support software. Either way, you build and use the decision model to determine which proposal offers the best "value for money" for your organization. As the Commonwealth of Australia defines it, value for money is "the essential test against which agencies must justify an procurement outcome. It is not an attribute or criterion in itself but is a basis for comparing alternative solutions."[16]

Contract Negotiation and Award

With *competitive bids*, the specifications in the bid document essentially make up the final contract. There is little to no room for negotiation on either specifications or price.

Negotiated contracts, as the name implies, are subject to negotiation of both price and specifications. In this case, you will begin your negotiations with the top-ranked organization or firm. The specifics to be discussed, reviewed, and agreed upon during the course of the negotiations include:

- Project schedule;
- Areas of responsibility;
- Performance expectations; and
- Compensation.

One of the most important objectives of the negotiation process is to reach a complete understanding of the scope of services to be provided. While you may have reached a preliminary understanding earlier in the process, the negotiation phase allows for refinement, amendment, and complete definition of the services to be provided, as well as compensation for those services. This portion of the negotiation phase should minimize the possibility for misunderstandings between the client and the contractor as the project progresses.

The compensation to be awarded to the chosen firm can be your biggest hurdle during negotiations. You should already have an approximate cost of your project. Compensation may be negotiated and established according to a number of different formulas–the lump sum or fixed fee is the most popular. Compensation should be detailed in the contract, specifying what costs are and are not included. In addition, agreement should be reached regarding what constitutes an application for a change order to the contract and subsequent additional costs. This process can be facilitated by including a proposed change order process in the IFB or RFP and asking the vendor to agree to it or propose changes to it.

If a contract agreement cannot be reached with the top-ranked organization or firm, do not hesitate to terminate negotiations and begin negotiations with the second-ranked firm. In the event that negotiations fail with all of the top-ranked organizations or firms, you may want to re-examine the project in light of its expectations and funding.

The Contract

As in any contract, both parties have certain responsibilities to perform. The government's and the contractor's responsibilities should be clearly itemized and defined in the contract document. Performance expectations should be spelled out as well, including:

- What will be evaluated and how will it be evaluated?
- What are the acceptance tests on the deliverable(s)?
- What constitutes compliance with performance requirements?
- What constitutes a breach of contract?
- Will penalties be imposed for failure to meet performance expectations?

- Are there incentives for exceeding performance expectations?

The contract can contain a wide variety of provisions that will influence the performance of the contractor and help assure compliance with the contract:

- Performance bond requirements;
- Security in the form of an irrevocable letter of credit;
- Hold back amounts against outstanding invoices;
- Penalties for failure to perform such as delayed payments or fines;
- Incentives for early performance;
- Cancellation of the contract for failure to perform;
- Financial incentives for completion of work ahead of schedule or achieving a specified high level of performance;
- Compensation tied directly to performance (such as % of gross collections);
- Performance reporting and monitoring requirements;
- Requirements to participate in technical assistance or training opportunities; and
- Fairly frequent re-bidding of contract in order to maintain competition and avoid complacency of vendors (although this will need to be weighed against the time required to start-up and retrain new contractors).

The above should all be identified in the RFP or IFB to make sure they are provided for in the price bid.

Step Six: Implement ongoing monitoring of performance.

A contract is only as good as the monitoring and follow-up conducted by the contract manager. The contract must contain enforceable provisions and requirements for data collection and monitoring reports, but it is up to the manager to develop the knowledge and skills necessary to detect and resolve problems that can arise.

A post-award conference between representatives of the government and the contractor can help to set the foundation for a successful contracting experience. Not only does such a meeting provide an opportunity to review contract documents in detail and minimize the possibility for misunderstandings, but it also helps to establish a "partnership" between government and the contractor.

Items discussed at a post-award conference typically include:

- Detailed contract provisions;
- The roles and responsibilities of each party;
- Performance expectations;
- Procedures for monitoring and measuring performance;
- Procedures for resolving citizen complaints;
- Procedures for resolving any disagreements between government and the contractor;
- Billing and payment procedures; and
- Security and confidentiality requirements

Ongoing monitoring should focus on four basic issues: customer satisfaction; timeliness; productivity; and performance problems.[17] Monitoring tools include:

1. *Periodic contractor reports.* Reports submitted by the contractor should be verified by government for accuracy, then reviewed for contract compliance and adherence to the project schedule.
2. *Inspections.* Inspections may include a random sample of completed work (e.g., the cleanliness of curb miles of street); on-site observation of work in progress; or inspection of equipment for safety. In some cases, it may be appropriate to obtain samples for laboratory testing.
3. *Review and analysis of complaints.* Some communities maintain a central hotline for citizen complaints, enabling them to monitor the type and volume of complaints. Others require contractors to report on citizen

complaints on a periodic basis. In either case, it is important to monitor how the contractor resolves any complaints.

4. *Client and/or citizen surveys or interviews.* Surveys or interviews can help you obtain information about customer satisfaction with contracted services.

What should you do if a performance problem is detected? Clearly, you can cancel a contract or enforce penalties if a contractor is not performing as desired. However, it is much better to develop a good working relationship with the contractor such that performance problems are resolved rather than having to resort to cancellation or penalties.

In the case of human services in particular, switching contractors can be very disruptive to clients. For example, a child that has been physically abused may be further traumatized if forced to give up a counselor with whom he or she has formed a bond. Or, if a group of clients depend upon a particular non-profit organization to provide meals in their neighborhood, they may face serious problems if a contract is switched to an other organization that is across town.

In cases such as these, provision of technical assistance is one option for resolving problems. The Human Services Department in Ramsey County, Minnesota, for example, has had good results with using "successful" contractors as mentors to those experiencing difficulty in meeting performance expectations.[18]

HINT: A contract manager must be careful not to become too close to a contractor–partnership does not mean "cronyism." Government still must be objective in its treatment of its contractors and the contracting process. Contract administrators can provide technical assistance, but *they do not work for the vendor*; they work for the taxpayers and clients who access the service.

Barriers to Competitive Contracting

There are a number of barriers that you may face as you pursue outside contracting, including:

- Lack of competition;
- Concerns about service quality; and
- Concerns about financial risks or service interruptions.

Approaches to dealing with these barriers include:

- Maximizing competition through careful selection of services, consideration of a wide variety of potential contractors, simplification of paperwork, breaking the contract into smaller segments, and other similar strategies;
- Including citizens and elected officials in conducting contracting feasibility studies and developing contract performance specifications;
- Establishing clear procedures for resolving any complaints related to service quality;
- Developing strategies for reducing risk, such as breaking a service into smaller projects and developing an emergency plan to deal with service interruptions; and
- Maintaining communication with elected officials, employees, citizens, and the media throughout the process.

The prospect of government employees losing their jobs is also a barrier. You may want to consider strategies that:

- *Accommodate existing employees through attrition, transfer and early retirement.*
    - Developing an early retirement package;
    - Instituting a temporary hiring freeze in related departments to create openings in which to transfer affected employees;
    - Delaying implementation of the contract in order to allow natural attrition to occur;
    - Providing for phased implementation of the contract so that work is transferred to outside

contractor over a period of time, allowing employees more time to seek alternative employment;
- Providing in-house job transfers; and
- Retraining employees for new positions (e.g., contract administrator).

- *Require contractors to give preferences to government employees.*

  - Requiring contractor to give qualified government employees the right of first refusal for all jobs created by the contract; and
  - Requiring the contractor to offer wage and benefits packages similar to government.

- *Provide outplacement services to affected employees.*

  - Notifying employees of their rights (e.g., bumping rights or transfers to other departments);
  - Providing information about unemployment benefits and severance pay, benefits for the continuation of health insurance, and pension options for vested employees;
  - Providing career counseling and assistance with filling out job applications;
  - Providing office services such as copying and telephone use to assist with the job search process; and
  - Providing personal counseling through an Employee Assistance Program.

Sensitive management of the transition will have a tremendous impact on the morale and productivity of all employees, not just those affected by the contract.

Implementation Tips

You will maximize your chances for success by considering the following tips:[19]

- Obtain consensus and commitment from top leaders;
- Research and plan the process thoroughly;
- Address employee concerns;
- Encourage competition;
- Ensure that objectivity is maintained in awards, monitoring, and renewals;
- Establish a monitoring plan before you contract;
- Define the contracted service in terms of desired results;
- Enforce contract performance standards;
- Maintain good communication with the contractor, elected officials, public, and government employees;
- Invest in the necessary expertise;
- Identify your financial exposure and negotiate contract safeguards; and
- Be prepared to walk away when red flags signal trouble ahead.

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Module 7

CREATING AND SUSTAINING A SUPPORTIVE ENVIRONMENT

Alberta
GOVERNMENT OF ALBERTA

Module 7

CREATING AND SUSTAINING A SUPPORTIVE ENVIRONMENT

Overview For Workshop Participants

Alberta
GOVERNMENT OF ALBERTA

Module 7: Creating And Sustaining A Supportive Environment

Overview for Workshop Participants

The concept of governmental goal-setting is not new, nor is the measurement of program performance.

Over the years, many of your communities have probably formed long-range planning groups. It is likely that many of you have also experimented with initiatives such as management-by-objectives or zero-based budgeting. Unfortunately, although a number of governments have shown remarkable success in managing for results over the long term, many more efforts have failed to make a lasting difference.

What makes the effective implementation of these practices so difficult?

First, goal-setting and performance measurement systems cannot simply be imposed on top of the existing bureaucracy and expected to be a success. The movement towards managing for results is likely to represent a challenge to most organizations' "architecture"–their structure, management systems, work processes, communication and reward practices, and most importantly, their work culture and people.[1] Resistance to change of this magnitude is a natural human reaction, particularly where it potentially threatens an individual's position in the organization or brings into question their competence.

Second, we operate in a political environment–an environment that often has been described as "impatient."[2] In contrast, successful implementation requires patience. Strategic planning and performance measurement systems may, in fact, require years to show improvements, while the spotlight is understandably on what can be accomplished before the next election. Making failure "visible" is also risky for public sector leaders, creating targets for the media, voters, and political opponents.[3] Finally, lack of long-term continuity across changing political administrations is an inevitable consequence of a dynamic political system. Even the most promising initiatives and recommendations may be relegated to the shelf with the onset of a new administration.

Despite these challenges, even skeptics believe that there are reasons for optimism. Differences between the efforts of yesterday and today include:[4]

- An urgent need to deal with public cynicism about government;
- An awareness that this will not be easy to do, that it is not a quick fix, and that it will not succeed as simply a top-down decree; and
- Bi-partisan political support for the concepts.

What holds the key to whether or not goal-setting and performance measurement will become just part of the latest trend a " pet rock of governance"?[5] The key is to guard against the mere implementation of goal-setting and performance measurement processes and procedures without also instilling the cultural change necessary for true success.

Organizational Culture and Cultural Change

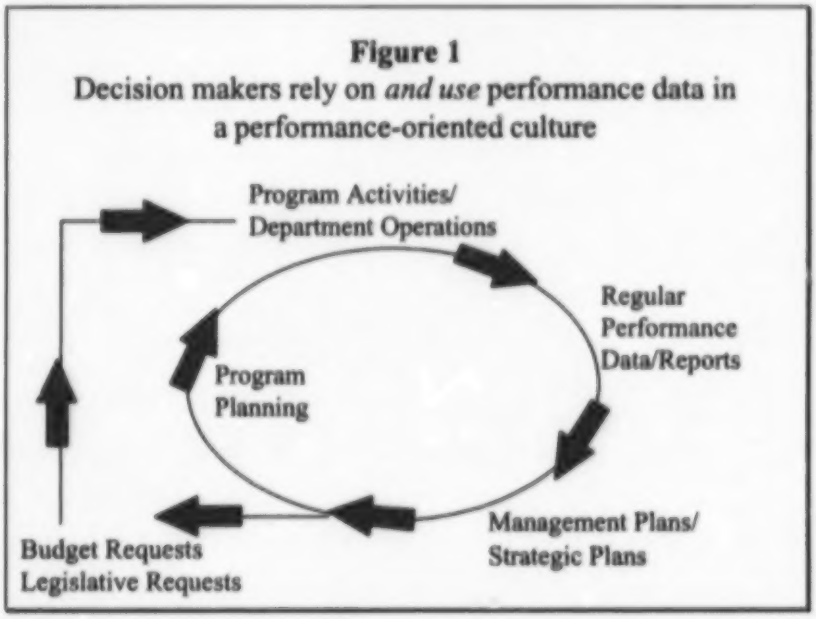
If goal-setting and performance measurement are to thrive over the long run, they must become part of your organization's way of doing business–in other words, your organization's "culture."

What is organizational culture? In simple terms, it is the personality of your organization. It is the assumptions, beliefs, values, attitudes, and expectations that are shared by members of your organization.[6] It is the way that staff members think about and carry out their work, the way that they interact with each other and with customers, and the way that they use resources and make decisions.

In organizations with a performance-oriented culture, there is widespread recognition that results are important–and that making decisions based on those results is important.

As one observer has noted, "Building a successful system is an incremental and long-term process. Local governments with reputations as well-managed organizations, such as the US cities of Phoenix, Charlotte, and Sunnyvale, have measurement systems that have been sustained over many years. In these governments, a culture develops in which managers and elected officials encourage and depend upon accurate, quantifiable information."[7]

Figure 1
Decision makers rely on *and use* performance data in a performance-oriented culture



Experts generally agree that cultural change is a long-term effort that takes at least five to 10 years to complete.[8] For organizational members, it involves not only learning the tasks related to goal-setting and performance measurement, but also understanding the benefits, expectations, and demands associated with operating within a results-oriented environment.

As shown in *Figure 2*, private sector experience offers a number of techniques that can be used to perpetuate or change organizational culture.

Figure 2

Techniques Organizations Use to Perpetuate or Change Their Culture

Degree of Importance	Techniques
Very great	• Display top management commitment and support for values and beliefs. • Train employees to convey and develop skills related to values and beliefs.
Great	• Develop a statement of values and beliefs. • Communicate values and beliefs to employees. • Use a management style compatible with values and beliefs. • Offer rewards, incentives, and promotions to encourage behavior compatible with values and beliefs. • Make the organization's structure compatible with values and beliefs. • Set up systems, procedures, and processes compatible with values and beliefs.
Moderate	• Replace or change responsibilities of employees who do not support desired values and beliefs. • Use stories, legends, or myths to convey values and beliefs. • Make heroes or heroines of exemplars of values and beliefs.
Some	• Recruit employees who possess or readily accept values and beliefs. • Use slogans to symbolize values and beliefs. • Assign a manager or group primary responsibility for efforts to change or perpetuate culture.

Source: US General Accounting Office, *Organizational Change: Techniques Companies Use to Perpetuate or Change Beliefs and Values* (GAO/NSIAD-92-105), p. 3.

Top management support has been identified as one of the most important factors for successful cultural change. Observers note that while slogans, logos, and proclamations are nice, they are not sufficient.[9] Management must show an active commitment to the process of change, not only by committing time, training, and money to the effort, but also by ensuring that all facets of the organization–reward and promotion systems, the organizational structure and management style, training, communications, symbolism, and systems, procedures, and processes–reflect the organization's commitment to results.[10]

Where does this leave you if you're not a "top" manager? Do you need to bide your time until the Premier, M.L.A.s', and/or department executives embrace the concepts of goal-setting and performance measurement? The answer is "no." You can still generate successes at lower levels. The state of Louisiana offers the following encouragement. "If a single agency or program uses [these] concepts and techniques to the extent of its authority, then you have a success at that level. At least the people within that organization will be generating results, meeting customer needs, and improving that small part of...government. Who knows, it might rub off on another organization."[11]

In fact, starting small has its advantages. Success with a limited number of programs can build the credibility and expertise needed to convince others to join you down the road. It can also help you to identify more accurately costs, barriers, and benefits prior to full-scale implementation. For this reason, even those jurisdictions committed to a broader effort may choose to start with a few agencies or programs on a pilot basis, as British Columbia has done.

Key Steps at the Programmatic or Departmental Level

There are a number of steps that you can take to promote effective implementation of goal-setting and performance measurement efforts in your program area or department.

Step One: Diagnose the organization.

Understanding the culture of your organization is an important first step in implementing a system of results-oriented management. The following types of questions can provide insight into the ability and readiness of your organization to develop and sustain goal-setting and performance measurement efforts.[12]

- Is there a system in place that rewards risk takers?
- Is there a commitment of resources to support performance measurement for at least three years?
- Is there at least one trained staff member who can monitor and analyze performance data?
- Is there clear support and direction from the chief administrator?
- Do elected officials have positive attitudes and work well with administrative management?
- Do elected and appointed officials consistently work to be objective and to base their decisions on fact?
- Is there a strong management team throughout the organization?
- Is there employee support for performance measurement? Do employees "fear" performance measurement or have other negative expectations? If so, what are their specific concerns?
- Is there a healthy working environment, where staff members work well together?
- Is there a willingness to face the possibility that some services are not operating well and that this may have to be explained to the public?

This diagnosis will help you to develop strategies that address potential barriers to successful implementation.

Step Two: Build an awareness of the need for change.

If managers and employees fail to see a need for change, goal-setting and performance measurement will amount to little more than a paper exercise.

How can you "sell" the concept to managers and employees?

- *Let the "numbers" do the talking.* Fiscal constraints are a driver of many change efforts. Tight budgets and rising service demands often make clear the need for setting priorities and achieving results.

- *Let your customers do the talking.* Talking with customers, whether through focus groups, interviews, surveys, or other means, can build an awareness of the need for change–particularly where there are significant gaps between customers' needs and expectations and your organization's actual performance.

- *Benchmark best practices.* As detailed in Module 2 of this curriculum, *Benchmarking Best Practices*, comparing your performance against that of others can highlight performance differences and illustrate tangible benefits of change.

- *Address any fears.* Fear and negative expectations can derail even the best-laid plans. Employees may fear losing their jobs, managers may fear losing program funding, or both may expect the initiative to result in little more than additional paperwork on top of their already demanding schedules. Selling the concepts of goal-setting and performance measurement means identifying and addressing these fears and expectations. As discussed in further detail in Module 4, *Using Performance Results*, involving

  employees and managers in the development of plans and measures, providing incentives to encourage the use of performance information, and giving managers the opportunity to report explanatory information alongside performance data are often effective in addressing fears.

- *Facilitate networking.* Networking can be a valuable tool in building and spreading support throughout your organization. Alberta Treasury recognized the value of networking and created a PM chat group, a series of seminars that brought PM staff from various ministries together to share their successes and concerns. The state of Louisiana suggests facilitating networking between responsive individuals who are already using quality concepts, urging supporters to "encourage communications and watch the team work grow."[13] The state of Virginia, likewise, found peer networking to be a successful component of its performance measurement pilot program. Officials there felt that managers were more receptive to feedback from peers than from those in positions of "authority."[14]

Step Three: Provide training.

As discussed in Module 4, *Using Performance Results*, the state of Oregon found that training in the mechanics of measuring performance and the positive uses of performance information helped to develop staff level support for performance measurement efforts.[15] Oregon's approach was to provide training to all agency heads as well as to volunteer co-ordinators in each agency. These co-ordinators–who also received ongoing guidance and assistance–served as mentors and trainers for others in their agencies. Two videos were developed to supplement the training efforts. The videos featured testimony from the governor, agency heads, a union leader, and line staff on the benefits of performance measurement.

Other approaches to training include:

- *Handbooks.* Alberta and the states of Louisiana and Arizona are among those who have supplemented training workshops with written reference materials. Alberta's *Measuring Performance: A Reference Guide*, Louisiana's *Manageware* and Arizona's *Managing for Results* handbooks guide agencies through strategic planning and performance measurement processes.

- *Computer-aided instruction.* New technologies continue to expand training options. The International City/County Management Association, for example, introduced an innovative multi-media training program on CD-ROM in 1995. Entitled *Applying Performance Measurement*, the program can be used for individual, group, or classroom instruction. The North Carolina Office of Strategic Planning is also using computer technology to provide learning opportunities for state agencies, incorporating a handbook guide to strategic planning and definitions and examples of performance measures on its Internet home page.

Whatever the method of delivery, at a minimum, staff members, managers, and policymakers should receive training on:[16]

- the benefits of performance measurement;
- the performance measurement process and the mechanics of developing measures; and
- information on ways to use performance information, including allocating resources, formulating and justifying budgets, performance contracting, and personnel management.

Step Four: Develop a communications plan.

Communication has been described as "the link between performance and accountability."[17] As discussed in Modules 3 and 4, *Performance Measurement* and *Using Performance Results*, reporting performance information on a regular, periodic basis helps institutionalize the measurement process by ensuring that performance information is made available at times that coincide with planning and budget cycles and other important decision making processes, creating incentives for program improvement, and helping build public support.

The development of a communications plan is key to ensuring that both internal and external players are able to understand and make use of performance information. This involves:

- Identifying different audiences and their information needs;
- Determining when and how to present information to these differing audiences; and
- Educating these audiences so that they understand and can use the information.

"Educating" citizens and the media can be particularly important if you are planning efforts beyond the scope of a single program or department. Unfortunately, public cynicism about government appears to be at an all-time high. The introduction of performance measurement in such an atmosphere may place unfair blame on public managers if not preceded by a strategy of "awareness building." The public, for example, needs to be aware of the developmental goal of the performance measurement process and be cognizant of the fact that multiple factors affect community problems. The media can play an important role in "educating" the public if it is likewise informed.

Be sure that you do not neglect internal communications in developing your communication plans. Regular and positive communication is needed in order to communicate desired values and beliefs to employees and to discuss both progress and concerns with implementation. Among the internal communication techniques you might consider are newsletters, pamphlets, videotapes, questionnaires and informal organizational gatherings such as brown bag lunches. In addition, using the Internet or your intranet can also be helpful.
The government of Alberta created a Performance Measurement home page to foster communication and understanding, both internally and externally. It can be found at www.treas.gov.ab.ca/comm/perfmeas/index.html.

Step Five: Adopt a supportive organizational structure and management style.

You may discover that organizational structures and management styles that are rooted in the past may not serve your present needs. Adopting a supportive organizational structure and management style can help reinforce a commitment to results.

The following types of changes are often explored as organizations move from a "rule following" to a "results" orientation:

- Restructuring the organization to include fewer management layers;
- Delegating authority to lower levels of the organization;
- Encouraging team work;
- Moving towards greater employee participation in decision making; and
- Offering rewards, incentives and promotions which encourage employees to use goal-setting and performance measurement techniques.

General Electric's "Work-Out" program has been the inspiration for new management approaches in a number of state and local governments, including the city of Louisville, Kentucky and the state of West Virginia. An emphasis on teamwork and action are the hallmarks of this approach, which involves teams of managers, employees, and in some cases citizens in intensive, problem-solving sessions.

Step Six: Integrate performance measurement with other management reforms.

One of the reasons for long-term success with benchmarking initiatives at corporations such as Xerox, Motorola, and IBM is that they are successfully integrated with other quality processes and tools and complement established quality practices.[18] You should strive for the same type of integration in your organization.

Performance measurement is only one of a number of efforts that governments across the nation are undertaking in pursuit of increased effectiveness. None of these efforts should stand alone; each should be part of an integrated system. The challenge is to integrate efforts such as performance measurement, quality management, and strategic planning so that they complement one another. Quality management efforts can play an integral role in "establishing an environment" to support performance measurement efforts.

Additional Considerations for Jurisdiction-Wide Implementation

The steps discussed above are certainly of importance to a jurisdiction planning a full-scale implementation effort. However, several additional steps should be considered as well. These include:

Enacting Legislation

The Province of Alberta passed the *Government Accountability Act* in 1995. This legislation details the framework for "Accountability", and defines the structure that business plans must include outputs, costs, overall outcomes to permit a more comprehensive assessment of performance. While the measuring and reporting on the effectiveness of public sector programs is in the early stages in Alberta, since 1994/95 an annual report on results *Measuring Up* has been prepared on the performance of the Government of Alberta.[19]

A number of US state and local governments have also passed legislation mandating agency strategic planning and/or performance measurement activities.

Examples from other jurisdictions are:

- Arizona's Budget Reform Act of 1993 requires all state agencies to develop three-year strategic plans and associated performance measures. The legislation also calls for "program authorization reviews" to determine whether to continue, modify, or eliminate particular programs.

- The City Council in Austin, Texas passed a resolution in 1992 that called for the development of goals and performance measures for each of the city's departments, the production of an annual citywide performance report, and the development of a performance-based budgeting system.

- Florida's Government Performance and Accountability Act of 1994 established a performance-based program budget process, with all state agencies to be phased into the new budget system by the year 2002.

Establishing an Institutional Base

While providing a focal point for performance measurement activities, the establishment of a centralized institutional base is not just a symbolic gesture. Such an institution can perform a number of functions that could prove to be critical in sustaining your jurisdiction's performance measurement efforts over the long-term. These include:[20]

- Co-ordinating activities between agencies and across functional areas;
- Co-ordinating activities among various entities involved in performance measurement and evaluation activities–from auditors to budget analysts to legislative analysts;
- Helping to develop readily accessible data systems;
- Collecting and analyzing agency performance data;
- Reporting data to both internal and external users;
- Developing training programs and providing technical assistance;
- Serving as a clearinghouse for information from other provinces and the federal government; and
- Mobilizing other organizations to work toward common goals and objectives.

Most commonly, some or all of these functions are incorporated into the responsibilities of an existing agency or organization:

- *Planning and/or budget office.* Alberta Treasury's Performance Measurement group handles these responsibilities for the Alberta government. In Arizona, it's the Office of Strategic Planning and Budgeting that co-ordinates agency strategic planning and performance measurement activities.

- *Quasi-independent agency.* In Oregon, the legislature created the Oregon Progress Board, an independent state agency, as a vehicle for assessing progress towards the fulfillment of the state's strategic plan. This

organization, which is governed by a nine-member Board, is responsible for collecting and analyzing data, adjusting priorities, and ensuring that goals are addressed.

Which arrangement works best? Naturally it depends on the environment and base of support within your jurisdiction. But, in order to promote continuity, many observers recommend that the institutional base be a politically independent, impartial office which is not subject to rapid political change.[21]

Forming alliances with other sectors.

Your province, municipality or community cannot hope to accomplish all its goals working alone–in most cases, you will need to form alliances across sectors and organizations in order to achieve results. Obtaining buy-in from outside organizations can also help sustain your improvement process over changing political administrations.

The following examples illustrate how the state of Oregon has formed alliances across sectors and organizations in order to achieve results:

- *Urgent benchmark teams* have been formed to work in partnership towards important state goals. In the area of childhood immunization, for example, a consortium has been formed that involves over 50 organizations, ranging from the state's health division to hospital CEOs to the public broadcasting system. On one Saturday, the consortium immunized over 6,000 children–clearly more than the state's health division could have reached by itself.

- *Cluster benchmark teams* have been formed, acknowledging that individual benchmarks or goals are often related to one another. Educational goals and reform efforts, for example, are closely related to work force development goals. Cluster teams help organizations and individuals collaborate on these interrelated efforts.

- Benchmarks are also beginning to give direction to *nonprofit philanthropy* in the state. The Oregon Community Foundation (the state's largest) now determines its budget based on Oregon's benchmarks, while other organizations, such as the Portland United Way, are beginning to grant funds based on the state's benchmark goals. Additionally, community groups have begun to adopt benchmarks as the focal point of their activities.

- *Local governments* have begun setting benchmarks or connecting their efforts to the state benchmarks. The city of Gresham, for example, is building pertinent benchmarks into its planning and budgeting process, and the State Health Division is working with the county health departments on a wide range of health-related benchmarks.

- Oregon has formed a partnership with the *federal government*, known as the Oregon Option, that gives the state and its local governments the ability to mix funding streams and allocate monies as they see fit in exchange for measurable results in the areas of childhood development and health, family stability, and workforce preparation.

How can your organization or community encourage others to "buy-in" to important goals?

- *Involve other sectors in strategic planning and goal-setting efforts.* Early involvement is important. As discussed in Module 1, *Strategic Planning*, the strategic planning process provides an opportunity for a diverse group of stakeholders to reach consensus on common goals. Prince William County, Virginia's strategic planning process involved more than 3,000 of the county's 215,000 citizens through focus groups, surveys and study groups.

- *Provide training and technical assistance to local communities and/or community-based organizations.* In a 1994 survey conducted by the United Way of America, "staff training" emerged as the factor that would give the greatest boost to performance measurement by nonprofit organizations.[22] The Oregon Progress Board

has taken just such an approach, producing a training handbook for local communities and nonprofits that spells out how to develop a strategic plan, how to create goals and performance measures, how to collect data, and how to establish an oversight board.

- *Report data of interest to other users.* Minnesota, for example, analyzes and reports data on certain performance indicators by county–such as its Children's Services Report Card, while the Oregon Progress Board includes county performance data on its Internet home page.

- *"Get the word out."* In Alberta, meeting with a variety of government agencies may be of value. In addition, one may choose to meet with agencies, services clubs to share concepts of performance management activities and the benefits related to their services and programs. One of the members of Utah Tomorrow compares his state's efforts to involve local governments in state planning and performance measurement activities to a political campaign or religious crusade. Meetings were held with regional associations of government, local government trade associations, school boards, special service districts, and Rotary Clubs. The message was even taken to schools, where children were asked to draw pictures of what they would like their state to look like in the future. The hoped-for result? The involvement of local political leaders. "They can't ignore it. I think we will be seeing candidates campaigning on Utah Tomorrow within four or five or six years."[23]

It is important to acknowledge that this is not a "quick fix." Cultural change takes considerable time to accomplish. You would be wise to consider the following advice as you begin your journey towards a more effective and accountable organization:

Remember that pain hits long before value becomes apparent. Be patient...Most jurisdictions that have maintained a performance measurement system over many years find that interest and support are not always constant and fluctuate with changes in appointed administrators and elected officials...Remember that changes in the way employees think and act take time but that improvements will take place if you stay with the program.[24]

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